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SUBCOMMITTEE ON DAIRY PRODUCTS

OF THE

COMMITTEE ON AGRICULTURE
HOUSE OF REPRESENTATIVES

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CONTENTS

Statement of—
Bartlett, Dr. Roland W., professor of agricultural economics, College of Agriculture, University of Illinois — Page 1
Gorman, J. C., Mansfield, Ohio — 69
Gude, Arthur, president, National Dairymen's Association; accompanied by William Waldorf, president, Dairy Farmers of America; and John Gurtner, secretary-treasurer, National Dairymen's Association — 93
Additional data submitted to the subcommittee by—
Bartlett, Dr. Roland W.:
Are Federal milk orders acting as barriers to increased milk consumption? — 45
Exhibit I. Charts (figs. 1 to 14):
Figure 1. Population: United States — 28
Figure 2. Purchasing power per person: Illinois and United States — 29
Figure 3. Per capita consumption of milk in the United States — 30
Figure 4. Percentage utilization of milk in the United States — 31
Figure 5. Percentage distribution of edible fats and oils — 32
Figure 6. Proportion of milk sales is increasing; farmers are selling more milk and less cream — 33
Figure 7. Government purchases for price supports — 34
Figure 8. Milk production per cow — 35
Figure 9. Per capita consumption of fibers — 36
Figure 10. Exports of cotton — 37
Figure 11. Cotton: Commercial sales and Government purchases — 38
Figure 12. Changes in volume of milk manufactured into butter, cheese, and evaporated milk, by regions, 1944–45–46 (average) to 1955 — 39
Figure 13. Percentage changes in numbers of milk plants, by States, 1940–52 — 40
Figure 13A. Distribution margins vary widely (table) — 42
Figure 14. Indexes, per capita consumption of milk — 41
Exhibit II. Charts (figures 1 to 11):
Figure 1. Indexes of daily per capita consumption of milk, 1940–54 — 54
Figure 2. Proportions that per capita disposable incomes in specific regions and States were of those in the United States — 55
Figure 3. Amount that lowest reported store price of milk in New York was below or above that in Chicago, 1925–55 — 56
Figure 4. Proportion of milk sold in half gallons and in gallons: Chicago — 57
Figure 5. Changes in Chicago condensery prices and United States farm prices, 1920–54 — 58
Figure 6. Prices for class I, class II, and condensery milk in the 70-mile zone, Chicago, 1940–54 — 58
Figure 7. Amount by which New York class I prices exceeded average class I prices in Chicago and Minneapolis, St. Paul, 1929–54 — 59
Figure 8. Chicago blend prices to producers tend to rise and fall with condensery prices — 60
Figure 9. Indexes of daily per capita consumption of milk, 1940–54 — 61

Additional data submitted to the subcommittee by—Continued
Barlett, Dr. Roland W.—Continued
Exhibit II—Continued
Page
Figure 10. Changes in proportion that synthetic fibers were of total consumption of cotton, wool, and synthetic fibers, 1939–53 62
Figure 11. Changes in per capita consumption of coal, 1943–53 63
Is dairying likely to be a profitable enterprise 25 years from now? 27
Table 1. Minimum milk requirements per person recommended by nutritionists 46
Table 2. Does price affect per capita milk sales? 46
Table 3. Utilization percentages in 14 Federal order markets where milk supplies in shortage months were too small to supply market needs, 1954 47
Table 4. Utilization percentages in 8 Federal order markets where supply in shortage months was higher than necessary to supply market needs, 1954 48
Table 5. Utilization percentages in 26 Federal order markets not included in tables 3 and 4, 1954 48
Table 6. Average class I prices paid for 3.5-percent milk in specific Federal order markets, 1947 to 1954; and 1929 to 1946 and 1947 to 1954 averages 52
Table 7. Average amount that class I prices in specific markets exceeded or fell below the average class I price of Chicago and Minneapolis-St. Paul, 1947 to 1954; and 1929 to 1946 and 1947 to 1954 averages 52
Table 8. Increase in price of market milk compared with price of evaporated milk, 1919 and 1954 53
Table 9. Net amount which price per quart of fresh milk in specific cities exceeded price per quart of evaporated milk 53
Gorman, J. C., Mansfield, Ohio:
The dollars and sense of testing and culling 72
Production per cow, pounds 87
Get your income from high producers—fewer cows, less work 88
Kearns Packing Co., Mansfield, Ohio, letter of May 14, 1957 88
Cull the cow that culls your profits 88
Table 1. Estimated distribution of dairy herds and percentage of milk supply produced, by size of herd, United States, 1950 90
Table 2. Average gross receipts per cow from various annual production levels at different prices 91
Table 3. Estimated annual expenses eliminated by removing from the herd a cow producing 5,000 pounds of milk 92

MILK

WEDNESDAY, APRIL 17, 1957

HOUSE OF REPRESENTATIVES,
COMMODITY SUBCOMMITTEE ON DAIRY PRODUCTS
OF THE COMMITTEE ON AGRICULTURE,
Washington, D. C.

The subcommittee met pursuant to call at 10:10 a. m., in room 1310, New House Office Building, Hon. Thomas G. Abernethy (chairman of the subcommittee), presiding.

Present: Representatives Abernethy, Polk, Johnson (Wisconsin), Williams (New York), Krueger, and Andresen.

Also present: Mable Downey, chief clerk.

Mr. ABERNETHY. The committee will come to order.

The purpose of the meeting this morning is to hear testimony from Dr. Roland W. Bartlett, whom we all know.

Some weeks ago Dr. Bartlett advised us that he would be in Washington at this time and he sought the opportunity to appear before this committee. We agreed to hear him.

Dr. Bartlett, we are delighted to have you here. We have had you many times before us. You are recognized as an authority in this particular field. Your testimony has always been very helpful to this committee. We are glad to have you here this morning, and I am sure that what you say will stimulate our minds and our thinking.

STATEMENT OF DR. ROLAND W. BARTLETT, PROFESSOR OF AGRICULTURAL ECONOMICS, COLLEGE OF AGRICULTURE, UNIVERSITY OF ILLINOIS

Dr. BARTLETT. I have two things here this morning. One is a résumé of material which I presented to your clerk, and another is a group of charts which I have prepared and which I can review rather quickly. There are copies available of these résumés to all of the members of the committee as well as of the charts. Do all of the members of the committee have copies of those?

Mr. ABERNETHY. I think we all have them.

Dr. BARTLETT. I think that will help to have them before you.

Now, just to go through these points rather briefly, and then take a few minutes on the other, and then I will be glad to submit the questions.

Mr. ABERNETHY. All right.

Dr. BARTLETT. The first one, this hectographed material, is a résumé. The first is:

To what extent does price affect per capita sales of milk?

1. Present per capita consumption of milk falls far below that recommended by nutritionists.

I might add in that connection that a study——

Mr. ABERNETHY. Off the record.

(Discussion off the record.)

Dr. BARTLETT. The point that I was making under No. 1 was that we made a study in Illinois and found that the present per capita consumption in Illinois is about 0.99 pint daily, including the milk consumed in the form of ice cream, evaporated, and in cheese. According to the nutritionists' standards, it should be about 1.6 pint daily, so we have roughly about two-thirds of the nutritional requirements. My guess is that the situation in Chicago is not far different from the situation for the country as a whole. Almost everywhere, milk consumption is below that recommended by nutritionists.

Mr. ANDRESEN. Do your figures for Illinois show an increase in the consumption of milk?

Dr. BARTLETT. We have shown large increases, Congressman Andresen.

Mr. ANDRESEN. Over the period of years?

Dr. BARTLETT. Over the period of years, and it is continuing up. I would say that in two periods specifically that I have information on—the Chicago market in 1940 was 0.6 pint; in 1955 there was 0.85 pint daily per person. That is about a 40 percent increase, I believe.

Mr. ABERNETHY. To what do you attribute that increase?

Dr. BARTLETT. In Chicago, I would say we have had tremendous competition there, during the past 16 years.

Milk has been sold on the market in half-gallon paper containers in 1949. Later they brought in the gallon jug and they had quantity discounts both at home and for the stores. In my humble opinion, the introduction of these new innovations is the major reason why Chicago has increased the per capita consumption of milk more than the country as a whole.

Mr. ABERNETHY. You mean the packages have been made more attractive?

Dr. BARTLETT. To the consumer. Of course, they have a very good quality milk. I would say that the quality has not changed so much. I mean, the quality was good back in 1940, but two-thirds of the milk in Chicago goes out in half-gallon or gallon containers today; about 30 percent in gallons, and 37 percent in half gallons.

Mr. ANDRESEN. What do your findings show as to price range?

Dr. BARTLETT. Very wide, Mr. Andresen. The last figure that I got from Chicago on the gallon jug in stores, I believe, was 75 cents a gallon or about 18¾ cents a quart and I believe that if you look at the single quart price in Chicago for home delivery today, that it goes as high as 28 cents. Of course, most of the milk is sold to the lower price brackets.

Mr. ANDRESEN. Then, do you find that in Chicago the operation of the Federal order is not very effective?

Dr. BARTLETT. I would say—I have some material on that just a little later—but I would say one of the reasons for the increase in per capita consumption in Chicago is the elimination of the price fights we used to have before we had the Federal order. The Federal order has kept price on a supply-demand basis pretty closely and, because of the freedom from price wars—the dealers know their competitors pay the same price they do, and since he pays the same price as they

do, they do not have to fight in regard to the producers' price and the competition centers on distribution and more efficient distribution.

Mr. ANDRESEN. Do you infer, then, some of the retailers are using milk as a price leader in the sale of other products?

Dr. BARTLETT. No, I don't think so. I think what we have in there is specifically a large increase in the efficiency of milk distribution.

Specifically, we had 187 dealers in Chicago in 1946 and in 1952 that was reduced to about 118. About one-third went out of business for one reason or another. Some merged. Some became vendors. We had quite a shift of those who became vendors, namely those who buy milk on the dealer's platform and then sell it individually, either to homes or to stores.

I would say the competition and more efficient distribution has been made possible in distribution in which the dealers that remain are making money because they are free from having to spend a lot of time and energy on the pricing of milk to producers. Each one knows that other dealers pay the same price as he does.

Mr. ANDRESEN. Then you think that the price element has had quite a considerable part in increasing the consumption of milk?

Dr. BARTLETT. That is right. The lower distribution margin in Chicago has been a very effective factor and I would say, if you want to compare it on a countrywide basis, we probably had a greater degree of competition in Chicago than in most markets in the country.

If you want to go back one step further, which I think probably is a factor also, you will recall that there were indictments in Chicago in 1938. Farmers, labor, dealers, and the board of health were indicted under the Sherman Act and this was upheld by the Supreme Court in 1939.

And, as a result of that, they pleaded nolo contendere, namely they all said they had not been bad in the past but they promised to be good in the future.

I think one of the reasons for competition, probably a greater degree of competition there than in many markets, is because of that ruling or decision in 1938 which was upheld in 1940.

Mr. WILLIAMS. Is Chicago a free market? What I mean by that, can anyone go and get a license?

Dr. BARTLETT. That is right. There is no restriction on licenses. That is not true in New York.

Mr. ANDRESEN. Chicago is operating under milk-pricing orders?

Dr. BARTLETT. Yes, but what Congressman Williams is talking about, is that in New York there is a law that prevents new dealers coming in unless they can prove need of them.

Of course, actually I do not think that law would have made much difference in Chicago anyway. Supposing we had the law, I think we would have had the reduction in the number of dealers that I referred to.

Mr. ANDRESEN. There is no regulation under the marketing orders limiting the number of distributors on the market?

Dr. BARTLETT. Where?

Mr. ANDRESEN. In the Chicago area.

Dr. BARTLETT. No, not to my knowledge.

Mr. ANDRESEN. The reason I asked, I have heard from some in the business who are out in Wisconsin who said they were not permitted to go there.

Dr. BARTLETT. Well, as far as I know—I watched that rather carefully; the Federal order restricts no one with a Grade A permit. You see, the Federal order went into effect in September 1939, and we had up to as high as 24,000 producers in 1951. Since then 3,000 producers have left the market. From January 1954 to January 1957 there were 3,000 producers that went off the market, and about three-quarters of them were producers who were located within 100 miles from Chicago. The urban influence has spread out and taken some of the land that these farmers formerly used for farming; but, as far as I know—well, I would like to know, Mr. Andresen, specifically any case where any producers have been cut off the market because of the Federal order. I have never heard of it myself.

Mr. ANDRESEN. Well, this was about a year ago, in Illinois and Wisconsin. I had letters from producers up there who had been shipping into the Chicago market and who were then denied, after that time, the right to ship into there.

Dr. BARTLETT. May I ask you this: Was that denial based upon Federal order or board of health?

Mr. ANDRESEN. Well, I was under the impression there was a reallocation of the production area which put a limitation on the production areas.

Dr. BARTLETT. I doubt that very much. I know some producers have been cut off by the board of health, but I doubt that any have ever been cut off because of the Federal order. You see, each of the 21,000 producers on the market——

Mr. JOHNSON. If I may interrupt, I know that at Menomonie, Wis., milk is going to that market.

Dr. BARTLETT. With your permission, I will go ahead with this. I know you want to cover as much as we can today. No. 2 is:

Per capita sales of milk tend to increase with a decrease in price. The extent of the increase tends to vary in different markets and to the extent that price decreases are accompanied with widespread publicity in newspapers in the market where the milk is sold.

I might say specifically with regard to that we made a study of the Kansas City market from 1952 to 1954, and during that period the price to consumers decreased about 2.9 cents a quart. For each 1 percent decrease in price we got about a 1 percent increase in per capita consumption.

3. People with low and medium incomes tend to make more use of low-priced milk than those in the high-income groups.

4. Per capita consumption of milk tends to increase as disposable income increases.

Going back to this increase in Chicago, I think one factor in Chicago why the consumption has gone up as well as in other markets has been the large increase in the per capita disposable income since 1940.

Mr. ANDRESEN. And do you find that as the price advances the consumption goes down?

Dr. BARTLETT. It may or may not go down, Mr. Andresen. It will vary in markets.

Mr. Brinegar made a study in Connecticut and found that for each 1 percent decrease in price he got about a one-third percent increase in consumption.

The effect of price upon consumption will vary in different markets, but under a free and open market, under a competitive market, as compared with a market that has administered prices, each study I have made indicates that an increase in price or a decrease in price which is much more than the change of the consumer's income affects the per capita consumption in the opposite way.

Basically, to put in a decrease in price—and that is what they did in Kansas City, the dealers put it in and they advertised it in the papers so everybody knew it. It was widely publicized, and that resulted in a large increase in per capita consumption.

Mr. ANDRESEN. What is the price at which you meet with the point of resistance of the consumer?

Dr. BARTLETT. I do not think, Mr. Andresen, you can say that there is any price that is a point of resistance. I would say it is probably dependent as much upon what the prices have been.

Some markets have had a high price level, and if you lower that price level 3 or 4 cents you are going to get a substantial increase in consumption. Sometimes that decrease in price would still be a higher price than some other market.

I think it is what customers are used to. If they are used to paying—well, Connecticut has about 25 cents. Suppose they drop that to 21 or 22 cents. That will result in a substantial increase in consumption.

But now Chicago, where it is 75 cents a gallon, 18¾ cents a quart, the price did drop from a higher level to the 18¾-cent and that was a factor resulting in an increase in consumption.

I think people respond to change within their own area. In Kansas City it dropped 2.9 cents. I think in 1954 it was about 19½ cents a quart. So, you see, their starting level was nearly 3 cents a quart lower than in Connecticut. My guess is that a decline of equal amount in Connecticut that we had in Kansas City would result in about the same increase in consumption, if this was accompanied with wide publicity.

Mr. ANDRESEN. In connection with the price factor, do you find that a decrease in the retail price to the consumer is effective in materially decreasing the price to the producer?

Dr. BARTLETT. No; not under an order.

You see, under the Chicago order, or any other order, you have an average of about 90 cents a hundred paid above the condensary or basic or butter-product price—and that goes from 70 cents in the low months to $1.10 in the high months—so that price is there, regardless of what the dealers charge; the dealer has to pay those prices under the order.

So, if you do get extreme competition in any market with the Federal order, that does not affect the producer's price. I would say that it affects it indirectly only to this degree, that if you get a sharp decrease in handling margin, which happened in Chicago, that is reflected in the producer price by selling more milk in class I uses, and that tends to raise the blend price.

Mr. ANDRESEN. The lower price is absorbed by the distributors?

Dr. BARTLETT. That is absorbed by the distributors.

Mr. ANDRESEN. And do you know how the distributor takes care of a reduced margin? Does he reduce his wages or what?

Dr. BARTLETT. Not in Chicago.

Mr. ANDRESEN. Not in Chicago.

Dr. BARTLETT. I mean, it is done by handling larger volumes per plant, per store, per route.

Mr. JOHNSON. And do they not reduce by having each man working for them handle more milk per hour?

Dr. BARTLETT. That is right. Just taking the history from 1940—well, take it from 1930 to 1955—back in 1930, only 6 percent of the milk in Chicago went to stores. At the present time it is about 70 percent.

Between 1930 and 1940 we have official figures showing there were 1,200 fewer drivers. You see, the more milk that went to stores, the lower the wage cost. Also there was probably had as big a decrease between 1940 and 1950 as between 1930 and 1940. Thus a lower number of employees—rather than a decrease in wage rates, decreased costs and as they decreased, that would be passed on in a lower consumer price and per capita consumption increased.

Mr. ANDRESEN. When you appeared before, you predicted then a material change in the distribution of milk was taking place and, as I recall, you said a good many people would go to their corner grocery store and get a larger quantity of milk. Has that actually taken place?

Dr. BARTLETT. It is in process of taking place, Mr. Andresen.

I was here, I believe, in 1953 and in 1955, and I forget which one of those sessions I discussed this. We are having that take place.

Back in 1940, less than 10 percent of the milk was going to stores. At present I would say it is a little over the 50 percent. That change is taking place.

Mr. ANDRESEN. That means then that the consumer goes and gets his own milk.

Dr. BARTLETT. That is right.

Mr. ANDRESEN. And that milk is not delivered by milk drivers?

Dr. BARTLETT. That is right. Of course, we have another change which is taking place in many markets and that is, that in place of the union driver we are getting more and more vendors or subdealers who buy the milk at the platform and then sell it to their own customers.

I have a student in my class now whose father is a dealer in the Chicago market and this man sells milk to stores and to vendors, but has no retail deliveries at all. That trend is taking place to a greater or less degree in many markets.

Mr. ANDRESEN. Well, he is registered as a handler, then?

Dr. BARTLETT. He is registered there as a handler, and he reports to the Marketing Administrator his sales of milk as a handler. By this method he is keeping his unit costs lower.

Mr. ABERNETHY. Well, go ahead, Dr. Bartlett.

Dr. BARTLETT (reading):

> An increase in store sales of milk tends to increase per capita milk sales on a marketwide basis.

That is one of the things which happened in Chicago.

Let us turn the page to the résumé of the economic principles underlying the pricing of milk to producers.

> 1. Under the law of comparative advantage, farmers tend to produce products where costs of getting them produced plus transportation costs are the lowest. If Wisconsin or Minnesota farmers can produce high-quality milk and transport

it to Florida or Texas cheaper than it can be produced in these States, it should be produced in the northern areas.

I might repeat in connection with this that we have 3,000 fewer producers in Chicago today than there were 3 years ago. Three-quarters of the producers come from the inner areas around Cook County, DuPage, Kane, and so forth, within 100 miles of Chicago, and the milk is coming from further away from Chicago, because it can be produced cheaper further away.

2. The laws of price equilibrium as applied to farm products include the following principles:

(*a*) Prices of farm products tend to rise and fall together. Under competition, if the price of one commodity gets materially higher than that of another, many farmers will turn to the production of the higher-priced product. Increased production, in turn, will tend to lower the price of this product to its equilibrium level with other products.

(*b*) If the demand for a particular farm product increases or decreases relative to that for all farm products, its price will tend to rise or fall relative to that for all farm products. In agriculture the best example of this principle is the decline in the demand for horses. In 1910, there were 24 million horses and mules on farms; in 1954, 5 million. From 1910–14 a horse was worth nearly 3 times as much as a good dairy cow; in 1954, 1 cow was worth as much as 3 horses.

3. The principle of classified pricing of milk recognizes that—

(*a*) The price of market milk is higher than that of condensery milk because of higher costs of quality, uniform production throughout the year, and transportation.

(*b*) The price paid producers for evaporated milk tends to be higher than that paid for milk used as butter or cheese, since evaporated uses all of the total solids in milk, and, since its production requires high capital expenditures, unit costs of getting a supply of milk sufficient to operate a condensary economically usually are higher than those for milk manufactured into cheese or butter.

Specifically, on that point, in 1956 the condensery price in Wisconsin for 3.5 percent milk was $3.09, and the price for milk for butter and cheese was $3.02.

4. The principle of uniform production of milk recognizes the facts that—

(*a*) Peak loads result in unit cost of operation greater than for a fairly constant output; and

(*b*) The demand for market milk is relatively constant throughout the year. Elimination of wide seasonal surpluses not needed for market milk uses, lowers unit costs of operation of trucks and milk plants, and makes it possible to supply the market needs with a lower volume of the higher priced grade A milk, since less volume has to go into manufactured uses.

I might say in that connection that seasonality in milk production in Chicago has been lowered greatly during the past 3 years.

In 1955 in May the total milk receipts were 71 percent more than class 1 and 2 milk. In May 1956 this was reduced to 55 percent. Thus, seasonality is being narrowed in this as well as in many other markets.

Let us turn now, if I may, to the next section:

ARE FEDERAL MILK ORDERS ACTING AS BARRIERS TO INCREASED MILK CONSUMPTION?

This is getting down directly to the point raised a little while ago, Mr. Andresen.

1. In 40 out of 48 Federal order markets, milk reserves in the shortage months in 1954 did not exceed those needed to insure an adequate volume to supply market needs.

2. On a national basis, Federal milk orders have helped to increase the per capital consumption of milk.

3. In specific areas, Federal order class I prices have been higher than necessary to insure an adequate volume of milk.
4. Excessive class I prices have been one reason for lower milk sales in some Federal order markets, such as New York City.
5. Excessive class I prices, including those in Federal order, State-controlled, and unregulated markets, have caused excessive surpluses of milk, particularly in the milk-producing areas of the northeastern part of the United States.

HOW CAN EXCESSIVE FEDERAL ORDER CLASS I PRICES BE BROUGHT INTO LINE?

Answers to this question will vary. In my opinion there are three ways to bring excessive prices into line:
1. Publicize the facts.
2. Increase the competition offered by concentrated milk produced in low-cost areas and sold in high-priced markets.
3. Introduce remedial legislation, if necessary.

Most important in correcting the problem is knowledge of its existence. Publicizing the facts can tend to prevent future class I prices from being set substantially above those of competitive products.

It is reasonable to believe that, as concentrated milk competes with class I milk in high-priced markets, its sale will tend not only to lower the distributor's spread, but also to lower the class I price to a more realistic level.

And, while I hope that it will not be necessary, remedial legislation of Federal milk orders can be introduced if those administering such order continue to permit class I milk to be priced higher than necessary to insure an adequate volume. Such legislation should not be attempted until after two ways of attaining the desired objective have failed.

Mr. ANDRESEN. I would like to return, Doctor, to one of your preceding points, No. 2, at the top of the page, where you said:

On a national basis, Federal milk orders have helped to increase the per capita consumption of milk.

I would like to have you elaborate on this a little bit.

Dr. BARTLETT. That is a good question, Mr. Andresen. My reasoning is this.

If we pulled out the 68 Federal orders we have today, we would have chaos in the milk business. We would have chaos similar to what we had before the Federal orders. To point this out in the Chicago market, I know specifically the way that market operated before we had the Federal orders. Let us take a plant and call it plant A, which had 100,000 pounds of milk per day. They would sell 50,000 pounds of that volume to regular outlets at established prices, and they would sell the other 50,000 pounds to brokers. The broker would go into the market and sell for 1 cent or 2 cents less than the regular price or whatever he could get for it, and he would sell it to get rid of the milk since he was paid on a brokerage basis. That price, for the second 50,000, would be competing with the milk that the dealers were paying maybe 2 cents a quart more for. And this type of competition tended to pull down the whole level of prices in the market. If Federal orders were removed we would have the same chaos as before we had the Federal orders under which each dealer has to pay the same price as each other dealer, for milk in the same use. Without regulation there was so much confusion that the dealers were spending all of their time fighting the farmers rather than selling milk.

Based upon studies of many markets that I have made, and I quote specifically St. Louis and Chicago, because I am more familiar with them, per capita consumption has increased in both markets. In St. Louis, it increased due both to quality improvement and to pricing by

the Federal order; in Chicago primarily as a result of vigorous competition among dealers, permits a dealer to buy milk knowing the Federal order, knowing that his competitor is paying the same price. This regulation has taken out the confusion in pricing that formerly existed. Now each dealer can spend his mind and energy on more efficient distribution, and keep up with the competition he has been forced into, but without lowering the price to the farmer. You see, the class I price is paid by each dealer. This price will be the same for all dealers under the order whether or not there is intensive competition in distribution.

Mr. ANDRESEN. Well, in part, you have answered my question but when you refer—you are talking about the condition that existed prior to enactment of the milk orders, of course, a good many people were getting their milk a great deal cheaper than they have ever been able to get under the orders.

Dr. BARTLETT. Well, that is true. Of course, the fact is that you had a per capita disposal income from 1935 to 1939 of $532, and now it is around $1,800 or $1,900—I mean, the whole level of our income structure was raised during this period.

I would say, that had we had the same chaos in World War II and following which we had during and after World War I, I would expect the per capita consumption in Chicago would be at least 20 percent less than we have today.

Mr. ANDRESEN. Well, the disposal income that is available now, compared to what it was 15 or 20 years ago, has an influence upon the sale of vegetables——

Dr. BARTLETT. Upon everything, that is right.

Mr. ANDRESEN. Fruits and vegetables, particularly.

Dr. BARTLETT. That is right, but the two main factors that affect per capita milk sales are disposal income and price; and it is impossible to measure in statistical terms, the chaos caused by milk strikes. We had about 8 strikes in Chicago between 1916 and 1924, and that was during the period which was comparable to World War II and later. You had busting of heads, dumping of milk, and all the other things that go along with a strike and that is not conducive to a good social order.

I have been a fighter for Federal orders since their inception and also for keeping the pricing so that we do not have monopoly class I prices, but if we were to pull out the 68 Federal orders tomorrow, you would find that there would be chaos everywhere.

Mr. ANDRESEN. As I recollect in your previous appearance before this committee, you indicated the Federal orders might be on their way out.

Dr. BARTLETT. No.

Mr. ANDRESEN. Did I misunderstand?

Dr. BARTLETT. I think you misunderstood. I said they would be subject to study. Since I have been here the last time, Mr. Andresen, I made this study of the 48 Federal order markets. When I was here the last time, I said some of them were off-base, some had too high prices and if we did not watch out we might get enough of them that had a monopoly pricing, which might eventually disrupt the whole structure.

I was quite pleased in this study I made that only 8 out of the 48 had what I would call an excessive price.

And I might add, Mr. Williams, for your benefit, that New York was one of those that last year—this was 1954, had an excessive price. I just got the data before I came down here, and found that New York in 1956 did not have an excessive supply. Supplies went down and sales went up, so New York is out of that group that has excessive supplies.

Mr. ANDRESEN. Was that due to the lower price?

Dr. BARTLETT. No. But publication of facts may have prevented a higher price. We published these facts on the 1st of April a year ago. New York asked for a higher class 1 price in 1956 and did not get it from the United States Department of Agriculture. Publicity was one factor they did not get the higher price, as a result, this has tended to slow up the total production a little and class 1 sales have increased a little in 1956 as compared to 1955, so New York does not have the excessive supplies above the amount needed now as compared to formerly.

Mr. ANDRESEN. Well, the effect on production is not really substantiated by the Department of Agriculture because they say we are going into a period now where it is predicted we will have the highest production in history.

Dr. BARTLETT. That is true. May I hold that question until just a moment later? I have a chart on that. Maybe we had better go along now to the next point.

RÉSUMÉ OF ECONOMIC PRINCIPLES UNDERLYING PROCESSING AND DISTRIBUTION OF MILK

Some of the economic principles underlying the distribution of milk are:

(1) Distribution margins for food including those for milk products tend to change directly with changes in the general price level. Thus when the price level is rising, margins tend to rise. When the price level is falling, distribution margins also tend to decrease.

(2) In contrast to the above principle, the proportion of the consumer's food dollar used for distribution costs tends to change inversely with the general level of wholesale prices.

Distribution margins are more "sticky" than farm prices; they increase less than farm prices during periods of rising prices, and they decrease less than farm prices during period of declining prices.

(3) Under competition, new technology which can be effective in lowering unit distribution costs or is otherwise helpful in expanding the outlets for milk, tends to be introduced by the more progressive distributors, and tends to force all distributors in the market to meet this competitive force. Those unable to adjust their businesses to get lower unit costs either are forced out of business, or merge with others in the dairy business.

(4) In contrast, under monopoly the established distributors tend to slow down or prevent the introduction of new, low-cost methods, and thereby tend to curb increases in per capita sales of milk which would have taken place under competitive conditions. This permits the inefficient as well as the efficient distributors to continue in the milk business.

Examples of this are:

(*a*) Substitution of synthetic fibers in place of cotton.

(*b*) Substitution of margarine in place of butter.

(*c*) Substitution of nonfat dry milk solids in place of evaporated milk.

(*d*) Substitution of protein foods such as meat, milk, cheese, poultry, and eggs in place of cereal products and potatoes.

Mr. JOHNSON. Just one question on that page, the item that says, "Substitution of nonfat dry milk solids in place of evaporated milk." Now, at the present time that is what——

Dr. BARTLETT. That is an interesting subject, Mr. Johnson. I have been following that very carefully.

In 1948, 2 million of these home packages were sold; and in 1955, 150 million were sold—from 2 million to 150 million, but in 1956 it was practically the same as in 1955. It went up very rapidly and then we had a plateau these last 2 years. In relation to the evaporated milk, that consumption per capita is down 25 percent from what it was in 1948. Of course, we cannot prove, family by family, what is happening, but it is my guess that some families use nonfat dry solids in place of evaporated milk—as to the question of what is next in the field of powdered, I don't know. I am very interested in the plateau that we had in 1955 and 1956 because in each preceding year it has gone up. I mean, between 1948 and 1955 it shot up very rapidly. In the last 2 years it stayed the same.

Mr. ANDRESEN. Well, those two milk products are competitive, powdered and evaporated.

Dr. BARTLETT. That is right.

Mr. ANDRESEN. And the powdered came in during World War II.

Dr. BARTLETT. And its quality has been greatly improved during the past 4 or 5 years.

Mr. ANDRESEN. And many industries use that milk powder.

Dr. BARTLETT. Yes.

Mr. ANDRESEN. For example, in the manufacture of ice cream, bread——

Dr. BARTLETT. Cakes, all of the baked goods have used that. Shall we go to the next point here?

Mr. ABERNETHY. Yes, sir.

Dr. BARTLETT (reading):

IS STATE CONTROL OF CONSUMER MILK PRICES IN THE PUBLIC INTEREST?

1. The multiplicity of products and sizes of containers on which prices must be fixed greatly complicates the problem facing a State control agency.

2. Enforcement of minimum prices charged stores, restaurants, and other wholesale outlets is difficult, if not impossible. In some markets secret discounts, rebates, tie-in sales, loans, and gifts have become so general that they are the rule rather than the exception.

3. The regulation of public utilities by law is based upon the protection of the consumer from unjust or exorbitant rates, and also upon allowing the utility a fair profit on its investment and operation of its plant. If margins of milk distributors are lowered in line with the more efficient group of distributors, less efficient dealers can allege "confiscation" and appeal to the "due process" provision of the Constitution. This tends to limit the usefulness of governmental resale price control in obtaining increased efficiency.

4. State control of consumer prices tends to prevent the introduction of new inventions which have proven helpful in competitive areas in increasing per capita consumption of milk.

5. Sixteen of the twenty-six States once having State control of consumer prices have eliminated this type of control.

Mr. ABERNETHY. And do I understand that now only 10 States have that control?

Dr. BARTLETT. That is right. I might make one exception, that New Jersey is always in and out and this past week somebody reported to me that New Jersey was controlling consumer prices, but I have not had time to verify that.

Mr. ABERNETHY. I have never been able to understand the constitutionality of that authority, although I realize that there are times of emergency when I think price controls and price fixing are constitutional and not only that but they are necessary.

Dr. BARTLETT. On that point I might just give one fact which bears on this thing. Every case that I know of has been upheld in the Supreme Court.

Mr. ABERNETHY. Of the United States?

Dr. BARTLETT. Yes.

Mr. ABERNETHY. This Court or the one we had 25 years ago.

Dr. BARTLETT. Well, 20 years ago.

Mr. ABERNETHY. Twenty years ago?

Dr. BARTLETT. Yes.

Mr. ABERNETHY. And it has not been back in 20 years?

Dr. BARTLETT. Not to my knowledge. That was in the thirties.

Mr. ANDRESEN. That was done by the old Court before we had the changed Court.

Dr. BARTLETT. Well, I cannot remember the Court——

Mr. ANDRESEN. No, but 20 years ago we did have the old Court.

Dr. BARTLETT. Yes.

Mr. ANDRESEN. Doctor, you do not subscribe then to the theory that milk should be handled just the same as a public utility?

Dr. BARTLETT. Absolutely not. The matters—I testified in several cases in different States—there were things like these rebates and discounts which invite evasion of the law and they just accept these evasions as being part of the general rule.

Well, a law should either be enforced or we should not have it—and from my point of view in some areas this thing is just rotten to the core—I do not think we need consumer prices but I do think we could have milk pricing to producers either under Federal orders, or under State orders, such as North Carolina, Massachusetts, and Connecticut, controlling the farm price of milk.

But specifically, right now in San Francisco where they have State control and have had since 1938, I believe, the lowest price at which a dealer is permitted to sell milk, and if he goes below that he is evading the law, is 22½ cents a quart. Some companies could sell in California at 2 or 3 cents a quart below the established price, and one company which has around 500 stores in that State is selling fresh, concentrated milk, 3 quarts for 52 cents or 17⅓ cents a quart. This is over 5 cents per quart below the lowest price permitted under the law, and the company pays the class 1 price to the producers the same as for regular milk. It is a question of efficiency of distribution.

Now, we have this group of charts. We turn now, "Is dairying likely to be a profitable enterprise 25 years from now?" And I turn to the chart on page 2.

This shows the general trend of population. In 1950 the population of the United States was about double that in 1900. In 1956 it is 167.2 million estimated and if the population continues to increase at the present rate, in 1981 it will be around 230 million. In other words, from the viewpoint of population we all know we are very likely to have increased demand. Now, page 3——

Mr. ANDRESEN. May I ask a question right there? This estimate of population, that by 1981 will be around 230 million people—have you projected your thinking so that you can give to the committee an estimate as to whether we will have a shortage of milk producers in this country or the per capita consumption will be reduced?

Dr. BARTLETT. In answer to that I would quote Dr. Salisbury, who is head of our dairy science department. He says we can produce all the milk the people in the United States can consume.

Mr. ANDRESEN. You mean any time?

Dr. BARTLETT. Yes. The increase in production per cow and the increased use of artificial insemination, breeding practices, and feeding practices, are coming along so fast that you do not need to be perturbed by lack of milk. That the people can afford to buy.

Mr. ANDRESEN. Price enters into it as a deterrent as in coffee?

Dr. BARTLETT. That is right. Of course, what is happening basically, Mr. Andresen, is the unit cost of milk production is going down. I know that is a rather arbitrary statement possibility. But what we are giving you now came from the Dairy Herd Improvement Association Meeting and there they brought out the result of 17,000 pounds per cow annually in two-a-day milkings—you can see what is happening in artificial insemination, they are piling up the genes, they are getting second, third, fourth, and fifth generations, and these cows are producing very large quantities of milk. As I see it, we have just scratched the surface. There are about—I cannot state exactly, but as I recall, between one-third and one-fourth of the farmers that use that today. Some of them started a year ago while some of these older ones have used it for 5 or 6 or 7 or 8 years.

Well, when you get several generations of that good blood in there, piling up, you get very large production per cow, and I don't think you need at all to be perturbed on account of this approximately 2,800,000 increase in population a year—I think that is a little high, possibly, but we are going to have plenty of production.

Basically, our problem now is balancing this big increase in production, 3½ billion pounds last year with a two billion annual increase in sales. That means production is increasing faster than consumption at the present time and, of course, that is the basic problem from the viewpoint of our support prices and support levels.

Now, if you turn to page 3, that represents the changes in purchasing power—not the actual dollars but in how much more we can buy per person than we did in 1935 to 1939. For every dollar we had in 1935–39 we could purchase 60 percent more than in 1955, so the purchasing power was that much greater; and in Illinois it was 57 percent higher. With increased productivity, purchasing power per person is likely to continue to increase. And, of course, this is for all foods, including milk.

Turning to page 4, "Per capita consumption of milk in the United States", No. 1:

> Per capita consumption of milk in all forms declined from 821 pounds in 1942 to 710 pounds in 1955, a net decrease of 14 percent.
>
> 2. In 1955 per capita consumption of commercial butter was about half that of 1935–39. Loss of butter sales was the principal reason for the decrease in sales of milk.
>
> 3. Had butter sales been maintained at 17 pounds annually per person in 1955, the annual consumption of milk would have been 866 pounds per person. This would have been 5.5 percent higher than in 1942 and 22 percent above actual sales in 1955.

That upper line, that dotted line, represents what would have happened projecting butter at 17 pounds per person and, of course, the

underlying cause for this decreasing line was the loss in the butter consumption.

Page 5 shows the percentage utilization of milk in the United States:

1. The proportion of milk consumed in whole form is increasing. This trend is likely to continue.
2. The proportion of milk made into butter in 1955 was less than three-fifths of the proportion in 1924. Research studies of the Market Research Corp. show that this downward trend is likely to continue.

That No. 2 is based upon the fact that the younger housewives are buying a smaller proportion of butter than the older housewives.

3. In 1955, the proportion of milk manufactured into cheese was more than double that of 1924.
4. Frozen dairy products utilized 6.6 percent of all milk produced in 1955. This was 2½ times the proportion in 1924.

Of course, the big change in that particular item was this frozen-milk type, like Dairy Queen and so forth, and I think that there are 36,000 of those little places all over the United States today and they sell a tremendous quantity of these frozen dairy products.

5. The sale of evaporated, condensed, and dry whole milk increased up to 1950. In recent years the sale of these concentrated products has decreased.

Turning to page 6, this shows the changes in the total consumption of fats:

1. In 1913, butter constituted 36 percent of edible fats and oils. By 1955, this proportion had fallen to 16.5 percent.
2. In 1913, 3.4 percent of edible fats and oils was margarine. By 1955 this proportion had increased to 14.9 percent.
3. Edible fats and oils other than butter and margarine in 1913 were 60.5 percent of the total. By 1955 this proportion had increased to 68.5 percent.

In other words, part of the decrease in butter has been taken up by margarine and part has been taken up by other edible fats and oils.

Going to page 7 now, proportion of milk sales is increasing; farmers are selling more milk and less cream:

1. In 1899, 59 percent of all milk produced in Illinois was marketed as cream used in the manufacture of butter. By 1954, cream sales had fallen to 12 percent. For the United States as a whole, 19 percent of the milk produced in 1954 was marketed as cream.
2. In 1954 over three-fifths (67 percent) of the whole milk was sold for human consumption as milk or cream. The remainder was manufactured into cheese, ice cream, evaporated and condensed milk, and dry whole milk.

Now, turning to page 8, figure 7, "Government purchases for price supports," I want to spend a little time here; this takes in the question of Government price support.

1. Between 1953 and 1956, 45.8 percent of all nonfat dry solids was purchased by the Government. This indicates that price supports for this product are too high.

On this, later in this discussion, which I am not going to read, I recommended that the price support of nonfat dry solids be reduced 3 or 4 cents a pound, and I have 2 reasons for that.

In 1956, 49 percent, or just about half of the total products, were sold to the Government, purchased at 16 cents per pound and sold for 4, 5, or 7, or whatever it could be sold for. That is one fact in the present situation. The other fact is that we are getting a big ex-

pansion in new plants which are producing nonfat dry solids. I understand in Minnesota there are about six new plants that have been started the current year. I think Land O' Lakes is one, and there are several other companies, and I think that this trend is continuing in the Dakotas and Iowa.

To me, it does not make sense to produce more and more of these nonfat dry solids at 16 cents a pound to be dumped at 4 or 5 cents a pound. I think the present support price of nonfat dry solids is too high, and I think it should be reduced so it will be more nearly in line with prices that will encourage higher commercial sales and will discourage further production of this product to be purchased by the Government.

Mr. ANDRESEN. Do you see any trend for producers of hogs and poultry or other livestock toward the use of some of their skimmed milk?

Dr. BARTLETT. No; not any definite trend.

Mr. ANDRESEN. That is one way to dispose of it.

Dr. BARTLETT. That is right. Of course, here is the competition you get, Mr. Andresen. If they can sell to the Government at 16 cents a pound, and if the Government sells it back to a dealer and the farmer can buy it back at 7 cents a pound, he is going to tend to buy at the 7-cent rate—but as long as this unlimited output continues with the Government continuing to buy at 16 cents a pound, it is going to discourage farm use of skim milk.

Mr. JOHNSON. There was a time when they would go to dry milk and dry buttermilk for poultry—is that a substitute for something else—and because the price is so high, they don't use it any more?

Dr. BARTLETT. I cannot answer that question exactly. Much of this dried milk is sold back for farm feeding and my guess is that some of these people are buying it at the depressed price that it is sold at by the Government. In other words, they are not going to pay 16 cents a pound because they could not afford that, but probably are willing and do buy it for 5, 6, or 7 cents per pound.

Mr. ANDRESEN. Well, Doctor, this committee had two bills that were enacted into law for the encouraging of exports, particularly going into dried milk solids for exports. That market is being developed at the present time; is that right?

Dr. BARTLETT. That is right.

Mr. ANDRESEN. And we are having a market in many countries?

Dr. BARTLETT. That is right.

Mr. ANDRESEN. Have you looked into that?

Dr. BARTLETT. Yes. Of course, to get down to the facts there, exports are sold at a price lower than the 16 cents a pound which the Government pays for it, depending upon differences in exchange rates and world level prices. The difference between the 16 cents which the Government pays and the price paid, is of course, a Government subsidy. I am for that enlarged foreign market. I think that is desirable, but I think the 12-cent support price would be much more realistic on the long-run basis for the dry powder, both for domestic and foreign sales, than the 16 cents which we have today because it will do two things.

First, it will discourage the overdevelopment of new plants which is taking place right today—and this is not theory; this is fact—it

will discourage that overproduction where, instead of 49 percent to the Government, as you add more and more plants you might get 75 or 80 percent of total production purchased by the Government. Such a situation would be ridiculous and might hurt the whole program of Government price supports for dairymen.

Mr. JOHNSON. If the Government did what you recommended, the support price of milk going into butter would be lowered, would it not?

Dr. BARTLETT. The manufactured price would be lowered, that is right, and I think that is desirable.

Mr. JOHNSON. And the farmer would receive less?

Dr. BARTLETT. He might or he might not. Let me qualify that.

Last year the support price of manufactured milk as I recall was $3.25, which when reduced to a 3.5 percent basis, was $2.86. The actual price paid in Wisconsin for milk going into butter and cheese last year, according to the figures from their State department of agriculture was $3.02. In other words, the competitive price was somewhat higher than the support price, so that it does not necessarily mean that if the support prices were lower that the competitive prices would not continue to be above support prices.

But I am trying to think not only in terms of today, but the long-run effects, and to me it is a dangerous situation for the dairy industry to find a greater and greater proportion of the nonfat solids being taken over by Government.

When you get 50 percent of any commodity being supported by Government price supports and that proportion continually increases, to me that is a dangerous trend which should be stopped.

Mr. ABERNETHY. I would like to ask a question on this page 8. You set forth under sections 1, 2, and 3 the percentages which go into Government stock of nonfat dry-milk solids.

Dr. BARTLETT. That were purchased by the Government.

Mr. ABERNETHY. Yes. Then in section 4 you say:

In 1956, 4.3 percent of the total milk produced was purchased by the Government to support prices of dairy products.

That is not in addition, though?

Dr. BARTLETT. No.

Mr. ABERNETHY. That is in the total?

Dr. BARTLETT. That is in column 1, Mr. Abernethy, that is all milk produced.

Mr. ABERNETHY. In other words, this section 4 is the total of the three sections?

Dr. BARTLETT. That is right.

Mr. ABERNETHY. It was a little confusing to me.

Dr. BARTLETT. The reason I put them in separately was to have each of them stand on its own bottom.

The table on that page 8 shows that in 1953 the Government was purchasing 8.3 percent of all milk produced; in 1956 it was 4.3.

Mr. ABERNETHY. Does that not indicate you are making some progress?

Dr. BARTLETT. That is right, on an overall basis.

Mr. ABERNETHY. I do not want a misconception, because at first glimpse it is distorted where actually the record shows there is an improvement in the situation.

Dr. BARTLETT. That is right.

In 1953 when I was before this same committee I recommended that the parity prices for butter be reduced from 90 percent to 75 percent and I gave all of my reasons based upon a published study.

Mr. ABERNETHY. Let me ask you this question. How much of that percentage of lesser consumption, that is lesser taken by the Government in 1956 as compared to 1953 was in your judgment due to a lowering—and I don't know whether there was a lowering or not—of the support prices and how much was due to increased consumption?

Dr. BARTLETT. Well, of course, Mr. Abernethy, it is impossible to allocate each factor exactly. We know butter consumption increased from 8.1 pounds in 1953 to 8.3 pounds in 1956—and I am leaving out the relief butter, just talking about the commercial butter.

My guess is this, that had you left the butter prices at 90 percent of parity, instead of 4.3 percent of milk purchased by the Government in 1956, it probably would have been at least 6 percent or 7 percent of the total milk production. In other words, lowering of prices has brought about a specific improvement in the dairy industry. It stopped the downward trend and has encouraged commercial outlets for these products.

Mr. JOHNSON. It has not decreased the production?

Dr. BARTLETT. The production of milk, Mr. Johnson, is tied in directly with a lot of things including lower unit costs. That is a basic factor. We have got to recognize that we spend less man-minutes per 100 pounds of milk——

Mr. JOHNSON. And have not some people claimed that by lowering the prices you would lower the quantity of milk, that the farmer getting less would be discouraged from producing?

Dr. BARTLETT. Mr. Johnson, I am not responsible for what others say.

Mr. JOHNSON. I understand it did make butter more competitive, with the result that they picked up a little more of their market.

Dr. BARTLETT. That is right; it did two things with butter, as I see it; it prevented this decline we had for several years and it went up a little; and it stopped the increase in butter production.

Now, on cheese, I think we are getting into a point there—I think the present support price for cheese is too high, and later on I recommend a 20-percent decrease in support prices of cheese.

Cheese is very difficult, from the viewpoint of diversion, to find outlets for. Apparently it is much easier to find outlets for butter and nonfat solids than for cheese.

Another fact is that we are getting higher per capita disposable income in many areas which is increasing the per capita consumption of meat. In other words, cheese is having more difficult competition in commercial outlets because people are eating more meat.

My own reasoning is that if the disposable per capita income continues to increase, which is likely, cheese will have that relative competitive disadvantage, we will say, with the higher income, and my reasoning is it will be wise to consider dropping the support price on cheese so that it can meet this competition.

The question was raised 4 years ago when I was here, if 75 percent did not work, what should we do, should we drop it further, and I said "Yes."

I think at this time we sustain the present support price of butter and gradually we can reduce the milk surplus, so that eventually it will be absorbed in commercial sales.

Mr. JOHNSON. If you lower the support price of dry milk and lower the support price of cheese, would you be lowering the total of cheese and butter?

Dr. BARTLETT. That is right; you would be lowering both.

Mr. ABERNETHY. Doctor, I think that these people are doing a fine job of advertising their specialty products in their promotion. What do you suggest the people of this great industry, what they should do or how they should do it? Do you feel that the marketing of this just plain everyday cheese, the kind that the people eat the most of and which is purchased more by the average consumer; do you find, or do you believe, rather, that they might promote the sale of that cheese to an equal advantage as that which is promoted in specialty packages? Do you think they are putting enough emphasis on that?

Dr. BARTLETT. I do not know, Mr. Abernethy, the exact answer to that. I certainly have been very greatly impressed with the increase in per capita consumption of cheese.

Mr. ABERNETHY. The specialty cheese?

Dr. BARTLETT. Well, it includes both specialties and regular. We have maybe 25 varieties and we used to have only a few. I remember in the old days when we had one big cheese and they cut off a slab when you bought it. The improvement in merchandising has increased the per capita consumption of cheese including the specialty varieties and also the cheddar cheese, but my reasoning is that we do not want to abuse this theory of advertising.

I think there are limits beyond which advertising should not go and if you will say—well, just take, we will say, a pound of steak and a pound of cheese—now, if you advertise a pound of cheese and advertise a pound of steak and the consumer has the income, which is he going to choose?

I mean, you can advertise both products, but in my own reasoning there is a law of diminishing returns as to results from advertising. I think that we have had some enthusiasts for advertising that have oversold the results that are possible.

Mr. JOHNSON. I think it is very interesting, this point of cheese competing with meat. It is also competing with poultry, and poultry is competing with meat. You take, for instance, the housewife who is considering what she is going to have for the evening meal——

Dr. BARTLETT. Of course, Mr. Johnson, we have had in the past 10 years almost a revolution in the chicken industry.

Mr. JOHNSON. Yes.

Dr. BARTLETT. I mean, the consumption of chicken has risen tremendously. There you have a very low unit cost product competing with cheese. We used to think of chicken as something for special occasions and now many people buy some every week. Each product is competitive in the mind of the consumer. She is thinking of cheese and beef and lamb and chicken and so forth in connection with her overall foods.

Mr. ABERNETHY. Of course, around Christmas time particularly, I notice there is always on display imported cheese in the specialty packages.

Dr. BARTLETT. Yes.

Mr. ABERNETHY. Now, a lot of it comes in. Does that imported cheese come in in such quantities that you consider it to be seriously competitive with American cheese?

Dr. BARTLETT. I would say no. I do not think the proportion of imports, in relation to the total cheese industry in United States, amounts to very much.

Mr. ANDRESEN. Well, Doctor, I do not like to disagree with you on that, but I know that there is cheese from the Argentine and some other countries that has very seriously injured the producers of our cheese in Wisconsin and maybe some of these other States. In fact——

Dr. BARTLETT. Well, of course, again, I would not take it too seriously. I think that maybe insofar as cheese making is concerned, we should produce a quality that will be equal to imports. We are doing that for some types. I have a friend who is working full time on developing new cheeses.

I think basically that this gets down to a question of philosophy, to a certain degree.

As an example, I think that the competition we are getting today in the United States would be Volkswagen and other foreign makes of cars is an excellent thing for our automobile manufacturers and for our consumers. I think a certain amount of foreign imports is desirable in this day and age and I also think that if we are going to have a free world, we have got to have a certain degree of exchange of commodities so that foreign countries can buy our commodities. I would not be overdisturbed by these people that do not like imports of Volkswagens or do not like imports of certain small percentages of cheese. I think that we have got to take these things on the basis of the law of reason and reasonableness and I would say from the viewpoint of the overall situation concerning cheese that these imports are rather minor in their impact.

Mr. ANDRESEN. Off the record.

(Discussion off the record.)

Dr. BARTLETT. Well, let us go along the next one. On page 9, "Milk production per cow";

1. In 1956, milk production in the United States averaged 6,060 pounds per cow, or about 10 percent less than that for Illinois (6,695 pounds).
2. United States milk production in 1956 averaged above that for 1900. This was in contrast to a 91 percent increase in milk production in Illinois during the same period.

Page 10, "Per capita consumption of fibers."

This shows the trend in the per capita consumption of fibers:

1. In 1913, 90 percent of all fibers used in the United States were cotton. By 1956 this proportion had fallen to 65 percent.
2. In 1913, production of synthetic fibers was negligible. By 1955 synthetics constituted 26 percent of the total amount of fibers used.
3. The declining domestic consumption of cotton may be directly associated with high support prices, together with increased competition from synthetics.

There again, it is one of those things you cannot prove to what degree one factor, the price, or new products have affected sales. One could ask: To what degree would consumption of synthetics have increased without support prices for cotton.

My own reasoning is that support prices in the United States has encouraged the development of cotton in such areas as Mexico. Pre-

sumably, without price supports, we would have found new varieties of cotton which could have been sold in large quantities in both the domestic and foreign market. This would have tended to curb the sales of synthetics and maintain our foreign markets.

We next turn to page 11, exports of cotton:

1. In the 1920's nearly three-fifths of all cotton exports in the world were produced in the United States.
2. In recent years cotton exports have averaged around one-third of total cotton exports. With high support price for United States cotton, buyers have turned to other countries for cotton needed.
3. From 1925 to 1928, cotton exports from the United States averaged 8.8 million bales. Between 1952 and 1955, exports fell to an average of 4.1 million bales.
4. In 1956, a reduction of 6½ cents a pound in United States prices of exports resulted in an increase in exports to around 7 million bales.

Then the next chart on page 12:

COTTON: COMMERCIAL SALES AND GOVERNMENT PURCHASES

1. Between 1933 and 1956, slightly more than one-fifth of all cotton produced in the United States (21 percent) was purchased by the Government in its price-support program.
2. In 1955 one-half of all cotton produced (49.9 percent) was purchased by the Government. With lower export prices (6½ cents a pound) in 1956, slightly less than one-fourth of the cotton produced was purchased by the Government.

The essence of these particular charts in relation to the dairy industry, it seems to me, is this, that the dairy industry has got to keep its market competitive if over the next 25 years we want to maintain our place under the sun.

Mr. JOHNSON. I think that probably you know that in Wisconsin, Mr. Knox, the editor of Hoard's Dairyman, is suggesting to raise the price and control production—you know about his proposal? Have you studied that?

Dr. BARTLETT. Yes; I know roughly what it is.

Mr. JOHNSON. What is your opinion of it?

Dr. BARTLETT. One thing that he advocates is a 43 cent per 100 pounds increase in the price of manufacturing milk. That was in one of his articles. I think that such an increase at this time would be very dangerous and very unwise. Basically, what that would do would be to encourage the hog producer and the cattle producer and the corn producer to get into the milk business.

I think it would be very unwise to raise the price from $3.02, that is what was paid in 1956 in Wisconsin for butter and cheese, to $3.45. That would tend to encourage entirely too much production and it would tend to increase the proportion in Government purchases. The theory of curbing milk production by artificial means and production controls is a long way from reality. The theory has been entirely oversimplified in the use of those controls. Personally, I have not much use for his suggestion.

I think that he is sympathetic to dairymen in trying to work for them, but I don't think he knows very much about the milk business. I used to talk to Mr. Glover and Mr. Burchard years ago, and they would turn over in their graves if they heard some of his suggestions.

I am more in sympathy with other philosophies—such as expanding markets and lowering costs both of production and marketing. I recognize that we have newer philosophies and I try to keep an open

mind. In my opinion his suggestion of curtailing production is silly under the present system. I mean, from the viewpoint of public interest as well as the longtime enlighted self-interest of dairymen in this country. If the dairy industry is going to be maintained on a healthy basis for the next 25 years—and I am talking about the interests of the dairymen themselves—they have got to lower their unit costs of production and lower the units costs of marketing. Anything which tends to stagnate growth hurts the dairy industry, and I think his plan would tend to stagnate the acceptance of new inventions, and new technology, and increase rather than decrease unit costs of production.

The things that we are getting today are very helpful. I mean, this increase in production per cow. This is a very healthy thing. Some raise the question of synthetic milk. I do not think we need worry about synthetic milk as long as we can keep down the unit costs of production and continue to lower marketing costs and retail prices. To the degree that we put in barriers to the use in technology either in the distribution or production, we are hurting the dairy industry in the long-run effects—and I am interested not only in today, but in 10, 15, and 25 years from now, that the dairy industry will have a good place under the sun.

Now, we turn to page 13:

CHANGES IN VOLUME OF MILK MANUFACTURED INTO BUTTER, CHEESE, AND EVAPORATED MILK, BY REGIONS, 1944, 1945, 1946 (AVERAGE) TO 1955

1. In 1955 the volume of milk in the United States manufactured into butter, cheese, and evaporated milk was 4 percent higher than the average of 1944–46.

2. In 1955 the South Atlantic States manufactured 44 percent more milk than in 1944–46. This compared with a 42-percent increase in the North Atlantic States during the same period.

3. On the basis of volume, in 1955 the West North Central States manufactured 833 million pounds more milk than in 1944–46. This compared with an increase of 739 million pounds in the North Atlantic States and 524 million pounds in the East North Central States during the same period.

The purpose of this chart was to show the growth in the manufactured products, the increase in the South and North Atlantic States, which have had excessive class I prices during some of the period. This has resulted in a lot of milk going into the manufactured uses which, of course, in turn competes with these products in the Midwest States, which are the so-called low-cost areas.

Turning to page 14:

PERCENTAGE CHANGES IN NUMBERS OF MILK PLANTS, BY STATES, 1940–52

1. In 1952 there were 15,156 milk plants in the United States, according to Who's Who in the Dairy Industry (Urner Barry). This was 6 percent less than the number listed in 1940 (16,166). The number of milk plants decreased in 14 States and increased in 34 States.

2. Between 1940 and 1952 the greatest increase in number of milk plants was in Florida, 358 percent. Alabama increased 338 percent; South Carolina, 336 percent; Arkansas, 264 percent; and Montana, 254 percent.

3. Between 1940 and 1952 the greatest decrease in number of milk plants took place in Arizona, 69 percent. Others were New York, 54 percent; Illinois, 49 percent; and New Jersey, 48 percent.

4. In the North Atlantic States, the total number of milk plants in 1952 (5,302 plants) was 32 percent less than in 1940 (7,824 plants). New York, which does not control consumers' milk prices, had 54 percent fewer plants in 1952 than in 1940. In contrast, Pennsylvania, where consumer milk prices in all markets are under State control, had 6 percent more plants in 1952 than in 1940.

5. In 1952 the 5 States under State resale price control—Maine, New Hampshire, Pennsylvania, Rhode Island, and Vermont—had slightly more plants (2,010) than in 1940 (1,988). In contrast, the 4 States which did not control resale prices—Connecticut, Massachusetts, New Jersey, and New York—had only 56 percent as many plants in 1952 (3,292) as in 1940 (5,836).

Now, the essence of this, of course—we are just starting to study the changes in the number of milk plants, but the essence, what we are trying to drive at, is whether we are getting competition or whether we are not getting competition. I think from the viewpoint of the South, we do not need to be concerned generally about the increase in the number of plants, since there has been a large increase in urban industry in the South during the past 15 years, and they are using more milk.

Now, in the areas where the greatest decrease in the number of milk plants—taking the North Atlantic States—you have a more homogeneous area than if you take the whole United States. In the North Atlantic areas where they had State price control they tended perpetuate inefficiencies and keep the number of milk plants higher than in the other areas where they had not had consumer price control. Competition is taking place and has greatly reduced the number of milk plants.

My reasoning in regard to this is that it is dangerous to stop the increased improved technology in any area and what we are trying to find out is what is happening under competition and what is happening under monopoly.

Mr. JOHNSON. I thought there was an increase in condenseries in Minnesota——

Dr. BARTLETT. Yes; that is dealing only with milk plants, it does not include creameries, cheese factories, or condenseries.

Mr. JOHNSON. I see. Excuse me.

Mr. ANDRESEN. Well, Doctor, isn't it a fact that a good many of these small plants have gone down or have been taken over by larger plants?

Dr. BARTLETT. That is right. The father of one of my students, about 4 years ago, had a milk business in Chicago and we were discussing this question, the change in the number of plants in Chicago. He was Polish. He had a certain area where he distributed milk and in the late twenties there were as many as 27 in that area. Today there are only three. Many of those in that area have become vendors, and sell to the same customers. So you have got the merging of dealers and plants and it all comes back to volume. Within certain limits, the larger the volume in the plants, the more you have economies in the selling end.

Let us turn to the next chart, page 16:

INDEXES, PER CAPITA CONSUMPTION OF MILK

1. Per capita consumption of milk in the North Atlantic States in 1945 was 31 percent higher than in 1940. This compared with a 25 percent increase in the 39 States other than the North Atlantic.

2. Between 1945 and 1954, per capita milk consumption in the North Atlantic States declined 13 percent. This compared with a 10 percent decline in the 39 States other than the North Atlantic States.

3. Between 1948 and 1954, per capita milk consumption in the North Atlantic States declined 2 percent. This compared with a 3 percent increase in milk sales in the 39 States other than the North Atlantic States.

The percentage changes there are not big-enough to put too much weight on. There is, however, an indication that either from State control of consumer prices, or from excessive class I prices, the North Atlantic States have declined in sales when other parts of the country were increasing.

Mr. ANDRESEN. Is that due to the use of surplus milk in the school-lunch program?

Dr. BARTLETT. No.

Mr. ANDRESEN. You do not think so?

Dr. BARTLETT. No. One study I know of was made in a milk area. It was found that if milk sales increased 100 quarts, 75 percent were new sales and 25 percent were displacements.

Mr. ANDRESEN. The Department claims that it is the most successful program they have had in the disposal of dairy products.

Dr. BARTLETT. I would agree to that. And I think that the school milk program—I favored it from the start—is socially desirable. It is absorbing a good volume of milk where it is useful, and I think Congress should be commended for putting that in.

Mr. JOHNSON. Dr. Bartlett, going back to page 13—chart No. 13–A, on page 15—it seems like the margins are increasing according to that chart. Does that mean more profit per quart?

Dr. BARTLETT. Let us take that one up:

1. The cost for receiving, processing, bottling, storage, selling, and delivery of milk vary widely in different markets. In 1956 Cincinnati's costs average 12.82 cents a quart, or over 3 cents above the 24-city average (9.47 cents). In contrast, those for Washington, D. C., average 4.67 cents, or nearly 4 cents a quart below the average.

Mr. POLK. If I may interrupt at this point. I happen to represent the area that supplies milk to the Cincinnati market, and I just wondered if you had any information as to why it is high in Cincinnati as compared to Washington, D. C.

Dr. BARTLETT. I have not made a study, sir, of the situation there recently, but can reason from facts which we have.

Historically, Cincinnati has been a high-margin market. Just taking 1929, it was the highest of the 24 cities and it went down in 1930, there were several higher in 1930 and then it popped right back in 1949. And I think there were one or two markets higher than Cincinnatti in 1949. In 1954, Cincinnatti was about third or fourth.

My only reasoning would be, that presumably Cincinnatti has lacked the competitive forces that have been effective in Chicago, for example. Also, I think there is a lack in the use of the new technology in Cincinnatti which is available and could be used and is not being used there.

Mr. POLK. Well, does not mean that the farmers are being penalized in that area?

Dr. BARTLETT. The farmer is getting a smaller proportion of the consumer's dollar in Cincinnatti than most of these other markets.

Mr. POLK. I have received numerous complaints from dairy farmers, that they are losing money all the time and I know many dairy producers are going out of business.

Dr. BARTLETT. That is right.

Mr. POLK. Because of that fact, and they cannot continue.

Dr. BARTLETT. That is right. Some milk producers in many markets are changing to other lines of production. Well, the reason we publish these data is to measure differences, in a rough way, of market efficiency. To do this we take the lowest retail prices reported for each of 24 markets of 300,000 and over, as shown in the United States Fluid Milk Reports. From this price we subtract the class I price to determine the gross distributors spread. Historically, this has been a very wide market. Presumably they have not introduced the new technology which is available.

Washington, D. C., in contrast over a period of years, has had a very low margin; right now they are selling milk in gallon jugs here at a relatively low price. Presumably Cincinnati lacks this competition in gallon jugs, and has fewer people per milk plant than in Washington.

Mr. JOHNSON. Does that mean, for instance, taking the Milwaukee market, that in 1956 the figures 7.84 per quart, that is the gross margin?

Dr. BARTLETT. Yes. You take the lowest reported retail price and subtract the price paid the farmers and what is left is the distributor's margin. That includes all costs plus profit.

Mr. ABERNETHY. And that varies from 4.67 to 12.82 in the United States?

Dr. BARTLETT. Yes; in these 24 markets of 300,000 and over.

Mr. ABERNETHY. In other words, from the minimum to the maximum there is a difference of 200 percent?

Dr. BARTLETT. That is right.

Mr. ABERNETHY. It seems hardly possible.

Mr. JOHNSON. Are all these markets under Federal order?

Dr. BARTLETT. No; part are and part are not. Indianapolis is not; Buffalo is not; Pittsburgh is not; San Francisco is not; Houston is not; Rochester is not; Baltimore is applying for an order which has not been received yet; Los Angeles is not; Washington, D. C. is not—they are applying for an order.

Mr. JOHNSON. They are trying to get it right now.

Dr. BARTLETT. That is right. Now, let me read the last sentence:

> 2. In 1952 the District of Columbia had 11 milk plants with an average of 75,000 people per plant. This compares with a national average of 10,000 people per plant. Lower unit costs and margins in Washington, D. C., are directly associated with a very high level of efficiency in the processing and distribution of milk in that city.

And it comes to a question of large volumes per plant. We recommended several years at least 50,000 quarts daily of milk in a plant as being desirable. They have large volume per route. In a study we made in 1952 of 12 or 13 routes, we found that they had 7,000 quarts daily per route and that compares with around 1,300 quarts in Pittsburgh. Large volumes per store. In these 182 stores I think they averaged 467 quarts daily per store.

Mr. ABERNETHY. Off the record.

(Discussion off the record.)

Dr. BARTLETT. One of the newer developments that is coming recently and is coming very fast is concentrated milk.

There are two types, the fresh concentrate and the sterile concentrate.

Now, here is a quart container [exhibiting]. This is the Lucerne concentrate, vitamin B milk, which makes 3 full quarts of milk out of this 1 quart, and this has been sold in several hundred stores in California between June 1951 up to the present date.

Mr. ANDRESEN. Is that whole milk?

Dr. BARTLETT. This is concentrate, 3 to 1, Mr. Andresen.

Mr. JOHNSON. You say, since June 1951?

Dr. BARTLETT. That is right, for the past 6 years, or nearly 6 years.

And I quoted a few minutes ago the facts regarding the present price for whole milk is the minimum price permitted under State laws, 22½ cents in California and a quart of this is 52 cents or about 17½ cents per quart and that has been sold in those stores for 6 years.

Mr. ABERNETHY. Is the concentrating cost high?

Dr. BARTLETT. It is not high—costs of concentration can be offset by savings in paper containers.

Mr. ABERNETHY. Would it result in the consumer getting a lower price?

Dr. BARTLETT. Yes; if free to be sold without trade barriers.

This past year the Pure Milk Association of Chicago has started selling concentrate in one-third quarts and they are selling in Wisconsin. At the present time this milk could be transported in one-third quarts for 1,000 miles for 1 cent. The Pure Milk Association has asked permission to sell it in three States. So far they have not received permission. This fresh concentrate has been proven to be commercially acceptable in California after 6 years of sale. I made a study of this 2 or 3 years ago and about 25 percent of the sales in the stores were of this concentrate when it sold at 3 cents a quart below regular milk.

Mr. ABERNETHY. Does this have a different taste——

Dr. BARTLETT. You cannot tell the difference.

Mr. JOHNSON. That has been the trouble in the past with concentrates.

Dr. BARTLETT. Well, historically they have had the cooking processes and we have had this problem of taste. But with this new product people cannot tell the difference. Incidentally, it is a University of Wisconsin process that they use.

Now, the most recent thing, and the thing that we tested out in the Farm and Home Week was the sterile concentrate milk. That was made by Dr. Herreid who is in our Dairy Technology Division. This product was held for 2 months at 70° F. temperature, in tins. Thirty-five percent of the people who tasted it could not tell the difference between this and other milk. From my viewpoint the sterile concentrate has probably the biggest potential for the dairy industry; it is coming very close to becoming a reality.

About a month ago I was visited by a representative of a concern who had spent half a million dollars developing the sterile concentrate and the tins in which it has to go. Probably we have got about 25 concerns in the United States working on it at the present time.

Now, what will this mean to the dairy industry? We checked the prices of the White House brand about a month ago and we found that we could buy 6 cans for 73 cents. That is slightly over 12 cents a can and the cost of the sterile concentrate in my estimate will be

about 2½, to get a quart of concentrate, above the price of evaporated. In other words, if you take 12.2 and add 2.5 you have got 14.7, so about 15 cents a quart for sterile concentrate, and the present price of whole milk in stores is about 21 cents a quart and there is about 6 cents a quart difference. This is just in the middle western area which is pretty close to the heart of the surplus-producing area.

Now, if we take that same thing in Jacksonville, Fla., the present price is 27 cents a quart and we take 27 cents and 15 cents a quart, you begin to get some notion of what are the possibilities of this.

In my opinion, sterile concentrate is likely to come into the market within the next 2 years, and within the next 15 or 20 years is likely to have at least 20 percent or 40 percent of our fluid market go into this new product.

Mr. JOHNSON. What about States keeping it out, though, is it going to have that trouble from that angle?

Dr. BARTLETT. Yes, I expect so. I expect we will have this case go before the Supreme Court. I think that the barriers against sterile concentrate will be much less than those against fresh concentrate—you see, you already have got the flow of evaporated milk to every State, and all that the sterile will be—an evaporated milk, with no carmelized flavor.

Mr. JOHNSON. You mean a quality product?

Dr. BARTLETT. I am including in my calculations a quality product, it has got to be quality. I think you have got to have prices somewhat higher than condensery prices. When it comes out it is not likely to be priced under any Federal order. I think it will be priced at competitive prices. I think that those opposing concentrate will use every technicality in the books against it. However, I think that the sterile is pretty close to being a marketable product.

There is a question about these barriers. What should we do about them? I don't know. I think we should recognize them.

Mr. KRUEGER. How long can this product be kept in the stores?

Dr. BARTLETT. That is a good question. This product, as I say, they have had for 2 months at 70°. Evaporated milk—I understand now it may be kept, of course, a year, but if it is kept over 2 months, it has to be tipped. It gets thick otherwise. What they do now is to keep it under refrigeration, and that saves the labor of tipping. My guess is when sterile comes on the market, it will be handled the same as this.

Mr. JOHNSON. You think it will keep indefinitely?

Dr. BARTLETT. I would say a year.

Mr. JOHNSON. How long, Doctor, for evaporated milk?

Dr. BARTLETT. I don't know. Normally not more than a year.

Mr. JOHNSON. I don't know either. You see it on the shelves of the stores and it is not under refrigeration.

Dr. BARTLETT. Of course, I just learned this since I began studying this sterile, and they cannot keep it on their shelves more than 2 months without tipping it, so probably this will be the same and, normally—I mean, if they are putting it on the shelves you would have a turnover on it, they would try to turn it over much more rapidly than that.

Mr. ABERNETHY. Doctor, would you like to include the remainder of your statements in the record?

Dr. BARTLETT. Yes.

(Papers submitted by Dr. Bartlett are as follows:)

Is Dairying Likely To Be a Profitable Enterprise 25 Years From Now?

By Roland W. Bartlett [1]

Expanding interstate sales of concentrated milk, dry whole milk powder, and other new dairy products are likely to revolutionize the fluid-milk industry in the next few years. An increasing movement of milk across State lines is likely to cut the price to consumers from 5 to 10 cents a quart in most markets in the South and Northeast, and smaller amounts in most other markets in the United States. Per capita consumption can be expected to increase 15 to 20 percent.

Milk production in high-cost areas will decrease, and production in low-cost areas of the Midwest, South, and Far West will increase. The high-cost areas also will see a sharp decrease in distribution costs and in class I prices to producers.

Increases in both population and purchasing power of disposable income are favorable to maintaining and expanding milk markets.

Efficiency in milk distribution has failed to keep pace with increased efficiency in production. Continued inefficiency in milk distribution in many States is caused by trade association monopolies or State control of consumer prices.

The speed with which milk sales can be expanded will be in direct ratio with the speed with which milk ordinances and State price controls used as trade barriers to prevent interstate shipment of milk at low prices are removed. With consumer acceptance of fresh concentrated milk an established fact, a vast expansion in the interstate sale of this product could take place immediately with the removal of trade barriers.

Furthermore, consumer acceptance of sterile concentrated milk is getting closer day by day. In a recent test of this product in comparison with regular milk at the University of Illinois,[2] 35 percent of those taking the test reported reconstituted sterile milk as regular milk. This indicated their inability to distinguish the sterile from regular. Further improvements in processing are likely to still further increase the proportion of people who cannot distinguish fresh milk from sterile. The product used in this test was 2 months old, packaged in cans, and held at 70° F.

Sales of packaged nonfat solids increased from 2 million pounds in 1948 to around 150 million in 1956. This indicates high consumer acceptance of this product, and it is a portent of what is likely to happen to sales of concentrated milk with the removal of trade barriers.

Studies for improving the quality of dry whole milk are continuing. It is reasonable to believe that consumer acceptance of this product eventually can be attained.

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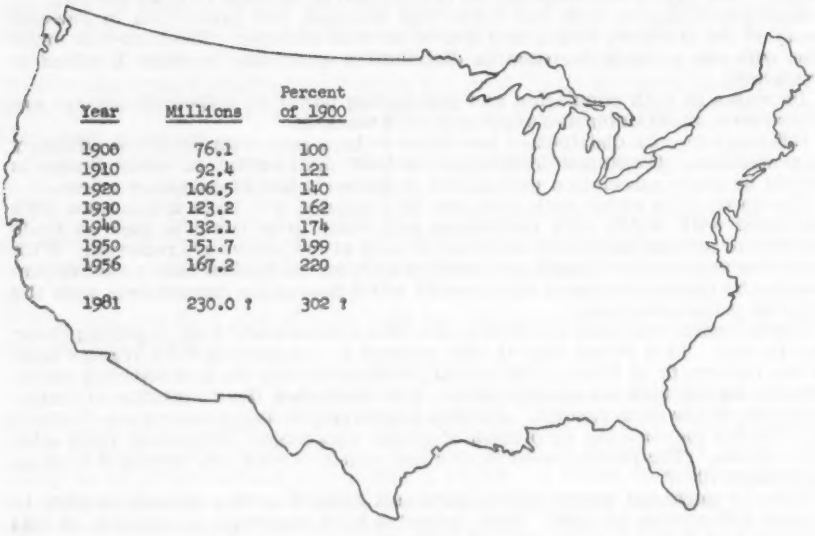
[1] Professor of Agricultural Economics, Department of Agricultural Economics, College of Agriculture, University of Illinois, Urbana, Ill. Paper given at 56th Annual Farm and Home Week, Dairy Marketing Conference, University of Illinois.

[2] The sterile concentrated milk used in this test was made under the direction of Prof. E. O. Herreid, division of dairy technology, University of Illinois.

EXHIBIT I.—Charts (figures 1 to 14)

Figure 1.--Population: United States



Year	Millions	Percent of 1900
1900	76.1	100
1910	92.4	121
1920	106.5	140
1930	123.2	162
1940	132.1	174
1950	151.7	199
1956	167.2	220
1981	230.0 ?	302 ?

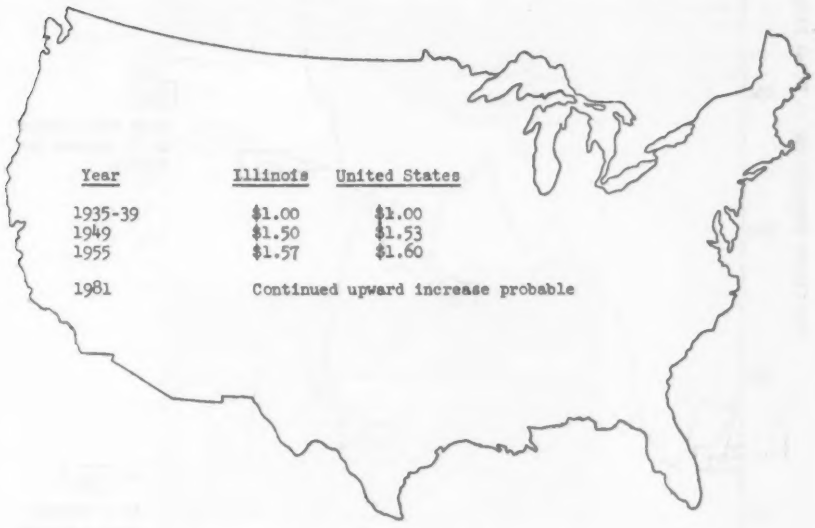
Source: United States Census of Population

1. In 1950 the population in the United States was about double that of 1900.

2. In 1956 the United States population was estimated to be 167.2 million, or 15.5 million more than in 1950.

3. If population continues to increase at its present rate, by 1981 it will be around 230 million.

Figure 2.--Purchasing Power per Person: Illinois and United States



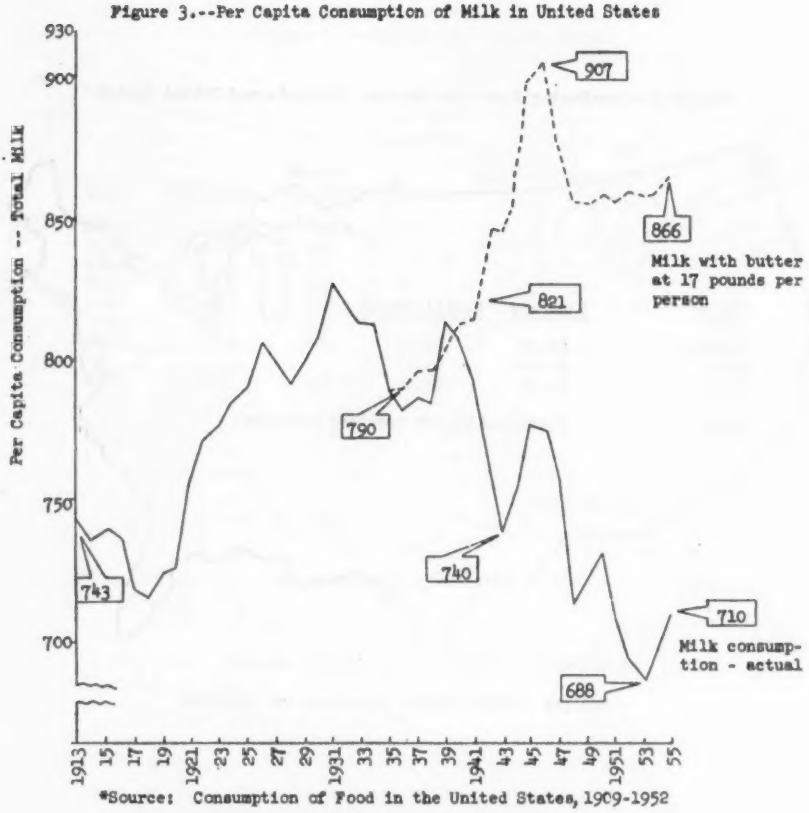
Source: United States Department of Commerce

1. In 1955 the purchasing power per person in the United States was 60 percent above that of 1935-39; and in Illinois, 57 percent higher.

2. With increased productivity, purchasing power per person is likely to continue to increase.

91642—57——3

Figure 3.--Per Capita Consumption of Milk in United States



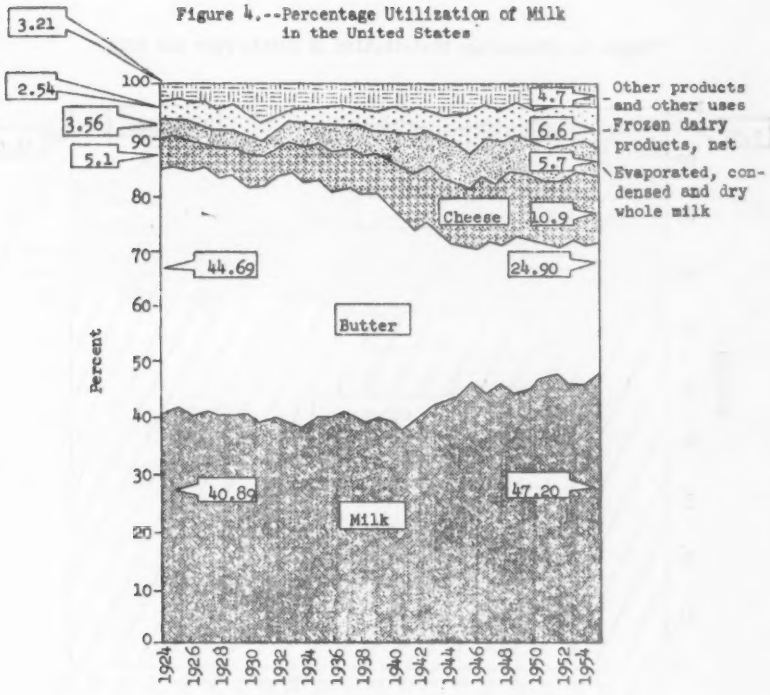
*Source: Consumption of Food in the United States, 1909-1952

1953: Agricultural Statistics, pages 427-429

1954-55: Same as above (Preliminary)

1. Per capita consumption of milk in all forms declined from 821 pounds in 1942 to 710 pounds in 1955, a net decrease of 14 percent.
2. In 1955 per capita consumption of commercial butter was about half that of 1935-39. Loss of butter sales was the principal reason for the decrease in sales of milk.
3. Had butter sales been maintained at 17 pounds annually per person in 1955, the annual consumption of milk would have been 866 pounds per person. This would have been 5.5 percent higher than in 1942 and 22 percent above actual sales in 1955.

Figure 4.--Percentage Utilization of Milk in the United States



Source: Statistical Bulletin No. 175, 1954, U.S.D.A.
A.M.S. 1955, U.S.D.A.

1. The proportion of milk consumed in whole form is increasing. This trend is likely to continue.

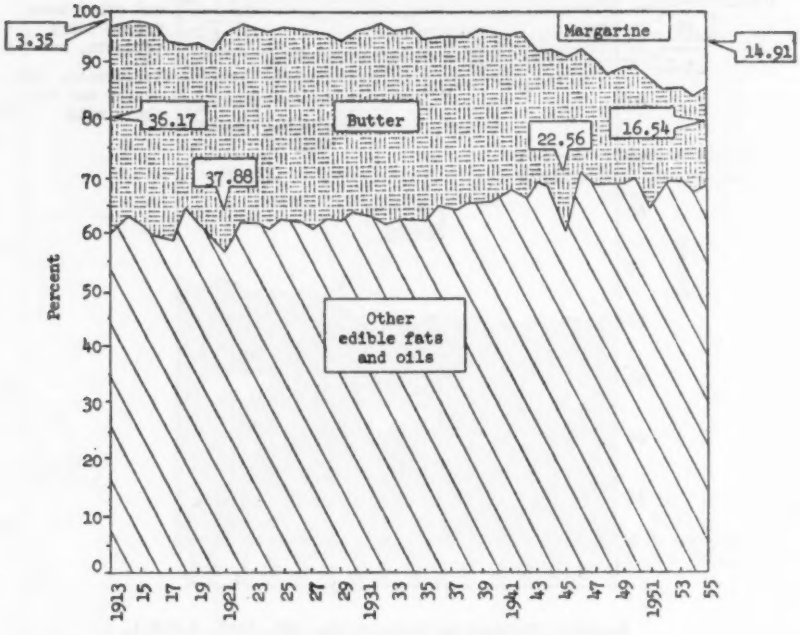
2. The proportion of milk made into butter in 1955 was less than three-fifths of the proportion in 1924. Research studies of the Market Research Corporation show that this downward trend is likely to continue.

3. In 1955 the proportion of milk manufactured into cheese was more than double that of 1924.

4. Frozen dairy products utilized 6.6 percent of all milk produced in 1955. This was 2 1/2 times the proportion in 1924.

5. The sale of evaporated, condensed, and dry whole milk increased up to 1950. In recent years the sale of these concentrated products has decreased.

Figure 5.--Percentage Distribution of Edible Fats and Oils



Source: Consumption of Food in the United States, 1909-1952 Agricultural Handbook No. 62, U.S.D.A. (excluded bacon and salt side)

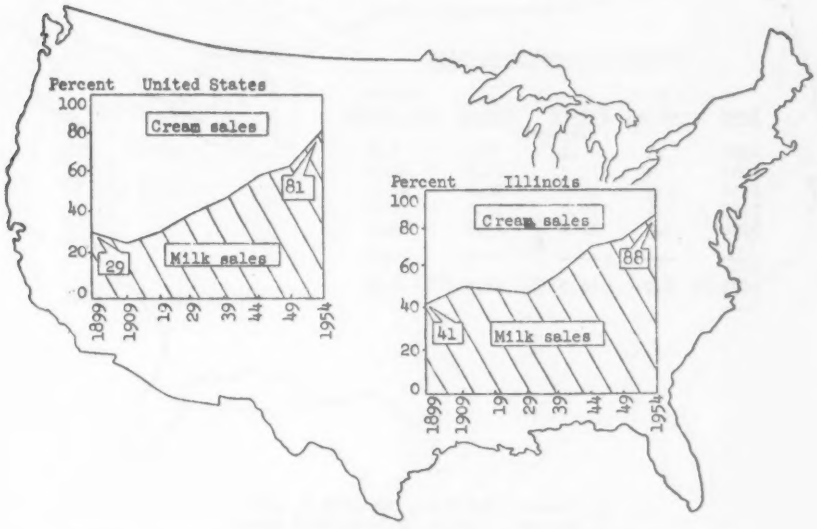
Later data From U.S.D.A.

1. In 1913 butter constituted 36 percent of edible fats and oils. By 1955 this proportion had fallen to 16.5 percent.

2. In 1913, 3.4 percent of edible fats and oils was margarine. By 1955 this proportion had increased to 14.9 percent.

3. Edible fats and oils other than butter and margarine in 1913 were 60.5 percent of the total. By 1955 this proportion had increased to 68.5 percent.

Figure 6.--Proportion of Milk Sales Is Increasing; Farmers Are Selling More Milk and Less Cream

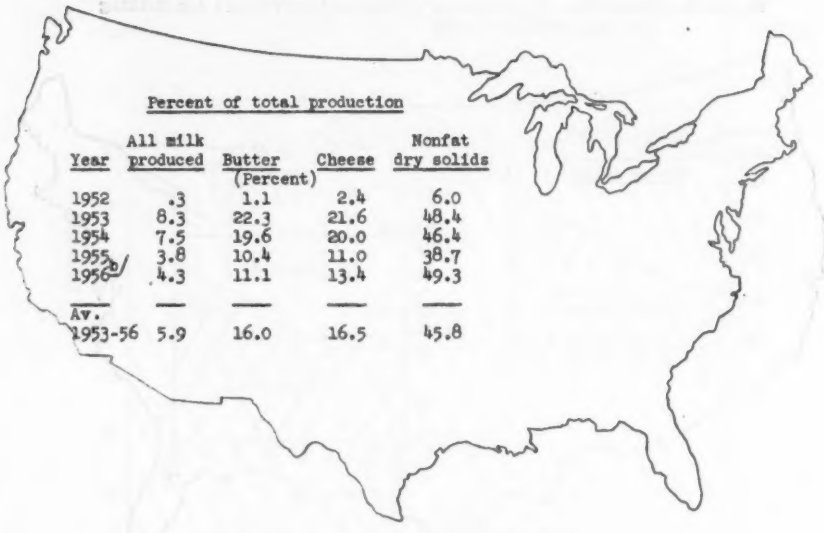


Source: Production and Utilization of Milk, U. of I. Bulletin No. 596

1. In 1899, 59 percent of all milk produced in Illinois was marketed as cream used in the manufacture of butter. By 1954 cream sales had fallen to 12 percent. For the United States as a whole, 19 percent of the milk produced in 1954 was marketed as cream.

2. In 1954 over three-fifths (67 percent) of the whole milk was sold for human consumption as milk or cream. The remainder was manufactured into cheese, ice cream, evaporated and condensed milk, and dry whole milk.

Figure 7.--Government Purchases for Price Supports[a/]



Percent of total production

Year	All milk produced	Butter	Cheese	Nonfat dry solids
		(Percent)		
1952	.3	1.1	2.4	6.0
1953	8.3	22.3	21.6	48.4
1954	7.5	19.6	20.0	46.4
1955	3.8	10.4	11.0	38.7
1956[b/]	4.3	11.1	13.4	49.3
Av. 1953-56	5.9	16.0	16.5	45.8

a/ Source: U.S.D.A., December 6, 1955
b/ Source: U.S.D.A. Reports, 1956 Dairy Price-Support Activity, No. 3381, November 7, 1956

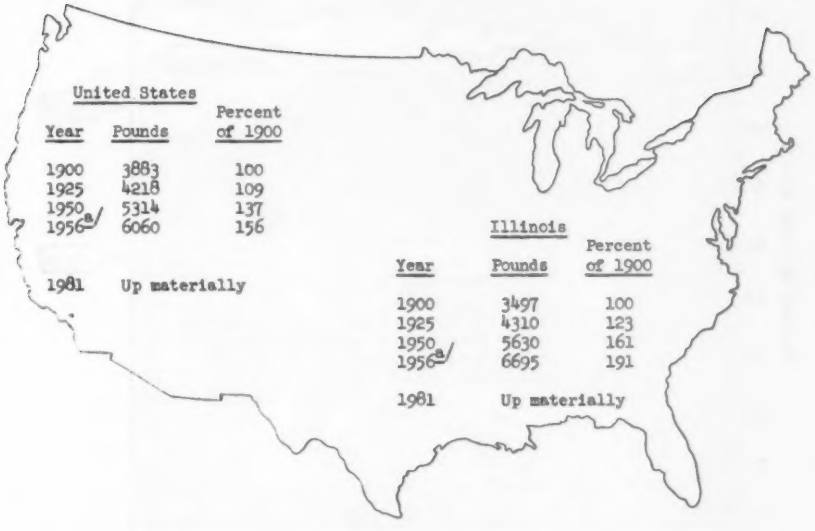
1. Between 1953 and 1956, 45.8 percent of all nonfat dry solids was purchased by the government. This indicates that price supports for this product are too high.

2. In 1956 about one out of every eight pounds of cheese was purchased by the government. Per capita consumption of commercial cheese in 1956 was the same as in 1953, 7.2 pounds. In addition, in 1956, .6 pound of cheese was donated to civilians for relief compared with .1 pound in 1953.

3. One-ninth of the butter produced in 1956 was purchased by the government. Per capita consumption of commercial butter and that used on farms in 1956 averaged 8.3 pounds, or .2 pound above that for 1953 (8.1 pounds). In 1956, .7 pound of butter was used for relief compared with .3 pound in 1953.

4. In 1956, 4.3 percent of the total milk produced was purchased by the government to support prices of dairy products.

Figure 8.--Milk Production per Cow

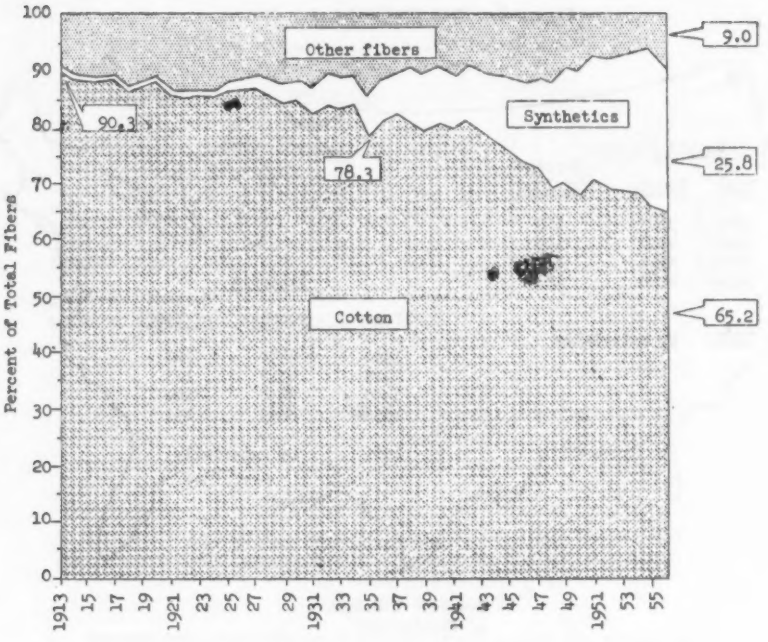


Source: U.S.D.A.
a/ Preliminary

1. In 1956, milk production in the United States averaged 6,060 pounds per cow, or about 10 percent less than that for Illinois (6,695 pounds).

2. United States milk production in 1956 averaged 56 percent above that for 1900. This was in contrast to a 91 percent increase in milk production in Illinois during the same period.

Figure 9.--Per Capita Consumption of Fibers



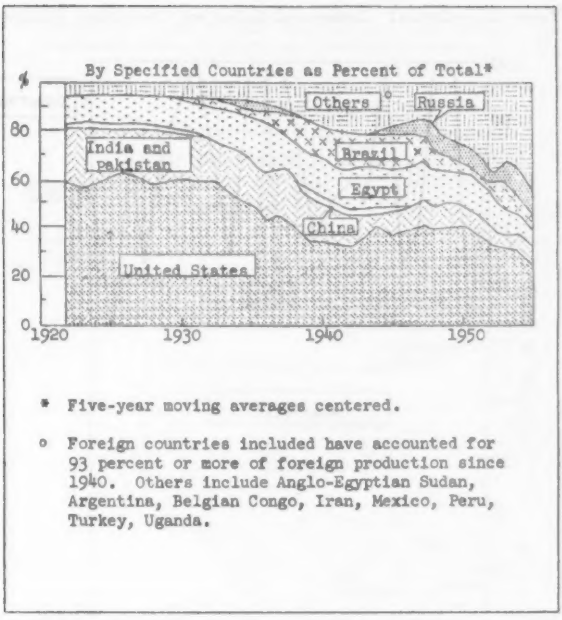
Source: Cotton Situation, March 1956, U.S.D.A.

1. In 1913, 90 percent of all fibers used in the United States were cotton. By 1956 this proportion had fallen to 65 percent.

2. In 1913, production of synthetic fibers was negligible. By 1955 synthetics constituted 26 percent of the total amount of fibers used.

3. The declining domestic consumption of cotton may be directly associated with high support prices, together with increased competition from synthetics.

Figure 10.--Exports of Cotton



* Five-year moving averages centered.

° Foreign countries included have accounted for 93 percent or more of foreign production since 1940. Others include Anglo-Egyptian Sudan, Argentina, Belgian Congo, Iran, Mexico, Peru, Turkey, Uganda.

Source: Cotton Situation, December 23, 1954, and later issues, U.S.D.A.

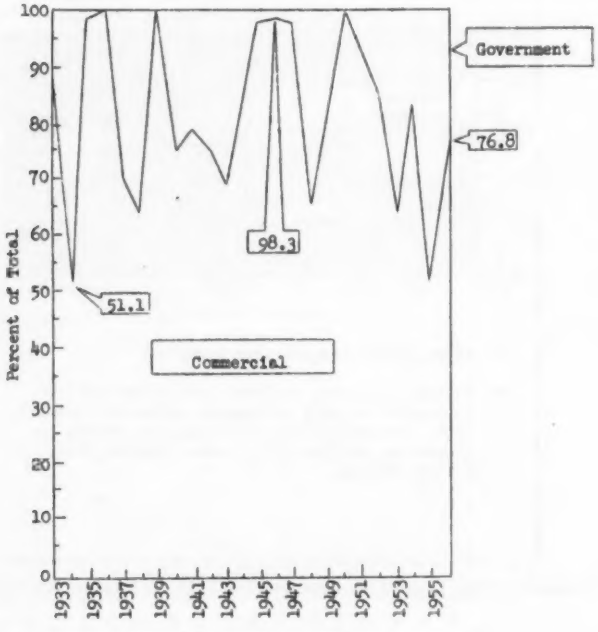
1. In the 1920's nearly three-fifths of all cotton exports in the world were produced in the United States.

2. In recent years cotton exports have averaged around one-third of total cotton exports. With high support price for United States cotton, buyers have turned to other countries for cotton needed.

3. From 1925 to 1928, cotton exports from the United States averaged 8.8 million bales. Between 1952 and 1955, exports fell to an average of 4.1 million bales.

4. In 1956, a reduction of 6 1/2 cents a pound in United States prices of exports resulted in an increase in exports to around 7 million bales.

Figure 11.--Cotton: Commercial Sales and Government Purchases

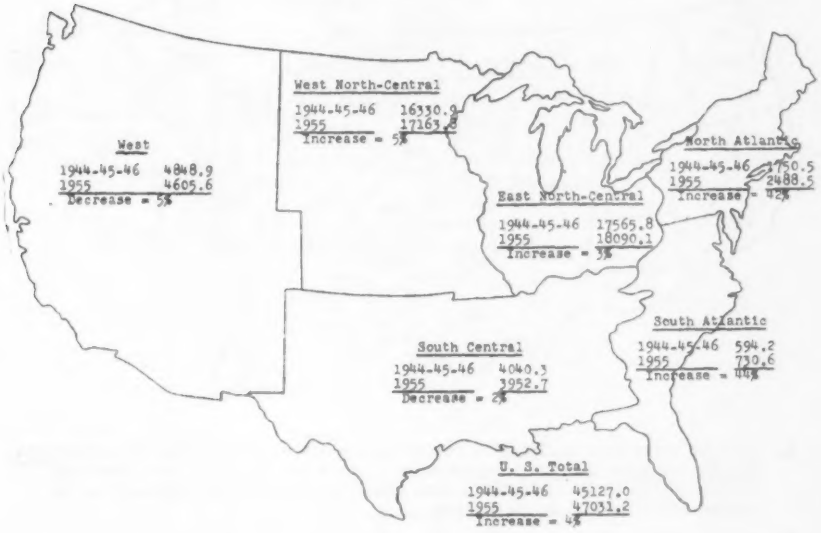


Source: Commodity Credit Corporation, U.S.D.A.

1. Between 1933 and 1956, slightly more than one-fifth of all cotton produced in the United States (21%) was purchased by the government in its price support program.

2. In 1955 one half of all cotton produced (49.9%) was purchased by the government. With lower export prices (6 1/2 cents a pound) in 1956, slightly less than one-fourth of the cotton produced was purchased by the government.

Figure 12.--Changes in Volume of Milk Manufactured Into Butter, Cheese, and Evaporated Milk, by Regions, 1944-45-46 (Average) to 1955



1. In 1955 the volume of milk in the United States manufactured into butter, cheese, and evaporated milk was 4 percent higher than the average of 1944-46.

2. In 1955 the South Atlantic States manufactured 44 percent more milk than in 1944-46. This compared with a 42 percent increase in the North Atlantic States during the same period.

3. On the basis of volume, in 1955 the West North-Central States manufactured 833,000,000 pounds more milk than in 1944-46. This compared with an increase of 739,000,000 pounds in the North Atlantic States and 524,000,000 pounds in the East North-Central States during the same period.

Figure 13.--Percentage Changes in Numbers of Milk Plants, by States, 1940 - 1952

1. In 1952 there were 15,156 milk plants in the United States, according to Who's Who in the Dairy Industry (Urner Barry). This was 6 percent less than the number listed in 1940 (16,166). The number of milk plants decreased in 14 states and increased in 34 states.

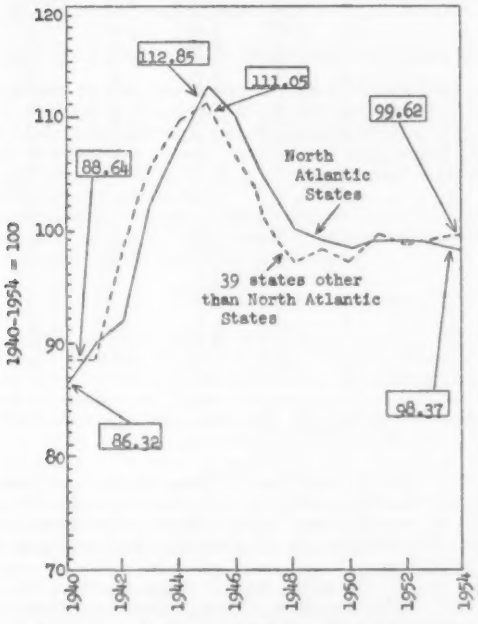
2. Between 1940 and 1952 the greatest increase in number of milk plants was in Florida, 358 percent. Alabama increased 338 percent; South Carolina, 336 percent; Arkansas, 264 percent; and Montana, 254 percent.

3. Between 1940 and 1952 the greatest decrease in number of milk plants took place in Arizona, 69 percent. Others were New York, 54 percent; Illinois, 49 percent; and New Jersey, 48 percent.

4. In the North Atlantic States, the total number of milk plants in 1952 (5,302 plants) was 32 percent less than in 1940 (7,824 plants). New York, which does not control consumers' milk prices, had 54 percent fewer plants in 1952 than in 1940. In contrast, Pennsylvania, where consumer milk prices in all markets are under state control, had 6 percent more plants in 1952 than in 1940.

5. In 1952 the five states under state resale price control--Maine, New Hampshire, Pennsylvania, Rhode Island, and Vermont--had slightly more plants (2,010) than in 1940 (1,988). In contrast, the four states which did not control resale prices--Connecticut, Massachusetts, New Jersey, and New York--had only 56 percent as many plants in 1952 (3,292) as in 1940 (5,836).

Figure 14.--Indexes, per Capita Consumption of Milk



Source: A.M.S. Dairy Situation, October 1954, U.S.D.A. A.M.S. Statistical Bulletin No. 188, January 1956, U.S.D.A.

1. Per capita consumption of milk in the North Atlantic States in 1945 was 31 percent higher than in 1940. This compared with a 25 percent increase in the 39 states other than the North Atlantic.

2. Between 1945 and 1954, per capita milk consumption in the North Atlantic States declined 13 percent. This compared with a 10-percent decline in the 39 states other than the North Atlantic States.

3. Between 1948 and 1954, per capita milk consumption in the North Atlantic States declined 2 percent. This compared with a 3 percent increase in milk sales in the 39 states other than the North Atlantic States.

FIGURE 13A.—*Distribution margins vary widely* [1]

[Cents per quart]

City	1929	1939	1949	1954	1955	1956
Cincinnati	8.19	4.68	9.36	10.18	9.91	12.82
New Orleans	7.31	4.73	9.41	12.64	11.97	11.67
Indianapolis	6.43	5.49	8.55	9.68	10.71	10.77
Denver	6.35	5.26	7.68	9.86	9.92	10.47
Philadelphia	5.33	4.90	7.40	10.05	10.09	10.46
Buffalo	5.91	5.76	7.35	11.02	10.39	10.32
Louisville	7.23	6.67	10.12	10.70	9.73	10.24
Kansas City, Mo	4.39	6.70	7.33	8.38	9.32	10.07
Seattle	4.43	4.96	7.73	8.32	8.71	9.85
Pittsburgh	6.55	6.48	9.45	10.89	10.48	9.84
San Francisco	5.10	5.80	8.48	9.78	9.72	9.80
Houston	5.30	4.80	7.52	7.38	9.27	9.62
St. Louis	7.04	4.84	9.88	8.94	7.65	9.57
Rochester	6.38	6.38	8.08	10.93	10.97	9.57
24-city average	5.79	5.02	7.86	9.33	9.34	9.47
Chicago	7.00	4.64	8.24	8.99	8.77	9.42
Baltimore	5.73	3.26	7.73	10.25	8.81	9.19
Cleveland	3.75	4.74	7.96	8.08	9.13	9.10
Boston	3.76	4.64	7.44	9.54	9.64	8.81
Los Angeles	7.42	2.89	8.50	9.20	9.25	8.81
Detroit	5.27	3.45	7.50	7.95	7.83	8.13
New York	6.60	3.97	5.08	8.36	8.29	8.01
Milwaukee	3.87	5.72	7.01	8.67	9.61	7.84
Minneapolis	4.89	6.03	6.06	7.56	7.90	7.46
Washington, D. C	4.74	3.67	4.87	6.70	5.27	4.67

[1] From USDA Fluid Milk and Cream Reports. Obtained by subtracting the class I price adjusted for the prevailing fat test from the lowest reported store price.

1. The costs for receiving, processing, bottling, storage, selling, and delivery of milk vary widely in different markets. In 1956 Cincinnati's costs averaged 12.82 cents a quart, or over 3 cents above the 24-city average (9.47 cents). In contrast, those for Washington, D. C., averaged 4.67 cents, or nearly 4 cents a quart below the average.

2. In 1952 the District of Columbia had 11 milk plants with an average of 75,000 people per plant. This compares with a national average of 10,000 people per plant. Lower unit costs and margins in Washington, D. C., are directly associated with a very high level of efficiency in the processing and distribution of milk in that city.

FAVORABLE FACTORS

1. Population increases and increases in productivity and disposable income are favorable to maintaining and expanding markets.

2. The decreasing number of milk plants in a few States indicates that new technology and increased distributor efficiency are practical under conditions of vigorous competition.

3. The rapid increase in production per cow indicates increased efficiency in production resulting from the widespread use of artificial insemination, better feeding, and improved management.

4. The probable expansion in the interstate sale of concentrated milk, dry whole milk powder, and other new dairy products on a widespread basis is likely to revolutionize the fluid milk industry within the next few years. The changes are likely to result in—

(*a*) A decrease of 5 to 10 cents a quart in prices to consumers in most of the markets in the South and Northeast.

(*b*) An increase of 15 to 20 percent in per capita milk sales.

(*c*) A decrease in milk production in high-cost areas and an increase in low-cost areas of the Midwest, South, and Far West.

(*d*) A sharp decrease in distribution costs and in class I prices in the high-cost areas.

UNFAVORABLE FACTORS

1. Studies of the Market Research Corporation of America indicate a further decrease in per capita consumption of butter.

2. Milk distribution efficiency for the United States as a whole has failed to keep pace with increases in production efficiency. Inefficiency in milk distribu-

tion is directly associated with distributor trade association monopolies and State control of consumer prices.

3. Class I prices are being held at unduly high levels, particularly in many markets in the North Atlantic States. Excessively high class I prices have been sustained in many markets under State control, in a few Federal order markets, and in some markets which are under neither State nor Federal control.

4. Use of sanitary milk ordinances to prevent interstate shipment of milk and cream is a problem of major importance.

IS DAIRYING LIKELY TO BE PROFITABLE 25 YEARS FROM NOW?

The dairy industry is now at the crossroads that can lead either to a profitable future or to a degrading decline. If we expand in the area of unduly high price supports and trade barriers, dairying, like cotton, may become a declining industry. But, if efficiency in production and marketing is increased and new products are permitted to be sold on a relatively free market, dairying is likely to be profitable 25 years from now.

As stated earlier, I believe that trade barriers to expanded sales of dairy products will be removed and that the efficient dairyman and distributor can look forward to a profitable future in the dairy industry.

ARE PRICE SUPPORTS FOR BUTTER TOO HIGH?

Four years ago in Illinois Farm Economics (February-March 1953) I discussed the subject: Is a 90-Percent Parity Price for Butter Desirable for Dairy Farmers? The facts relative to production and consumption of butter indicated that it would be desirable to lower the support price from 90-percent to 75-percent parity. Effective April 1, 1954, the Secretary of Agriculture reduced the support price for both butter and Cheddar cheese from 90 percent of parity.

What has happened to butter production and consumption as a result of reduction in support prices? Briefly these were the results:

1. *The sharp downward trend in per capita consumption of butter was stopped, and a slight increase in consumption has taken place.*—In 1956 commercial sales of butter plus that consumed on the farm averaged 8.3 pounds per person, or 0.2 pound more than that for 1953 (8.1 pounds). In 1953 relief butter taken from Government purchases averaged 0.3 pound and in 1956, 0.7 pound per person. This consumption was in addition to commercial sales and that used on farms.

2. *The sharp increase in butter production was stopped.*—In 1953 butter production totaled 1,607 million pounds, or 205 million pounds more than in 1952 (1,402 million). Estimated production in 1956 totaled 1,590 million pounds, or slightly less than in 1953.

3. The slight increase in per capita consumption, combined with a somewhat lower production and an increase in population, has materially reduced the volume of butter purchased by the Government. In 1953 the Government purchased 338 million pounds of butter to support butter prices. In 1956 Government butter purchases were only 175 million pounds, or only slightly above half those of 1953.

In 1956 Government purchases to support butter prices averaged 11 percent of the total butter production. This indicates that present support prices are higher than necessary to get production sufficient to supply the commercial market for butter. Also, it is not unlikely that Government butter purchases in 1957 will be slightly above those in 1956.

On the other hand, market progress has been made since 1953, in curbing excesses of Government purchases of butter and disposing of the volume purchased. Probable increases in per capita consumption of milk within a few years are likely to further reduce Government purchases of butter. Hence, at this time, it would appear desirable to maintain support prices of butter at their present level.

SHOULD PRICE SUPPORTS FOR CHEESE BE REDUCED?

On April 1, 1954, support prices for cheese were reduced from 90 percent to 75 percent of parity. What has happened to the production and consumption of cheese as a result of reduction in support prices? Briefly these are the results:

1. *The sharp increase in cheese production has been stopped.*—In 1953 production increased by 174 million pounds, or 15 percent, over that of 1952. Dur-

ing the past 3 years, it has increased only slightly, that for 1956 being less than 3 percent above that for 1953.

2. *Per capita consumption of commercial cheese has remained about the same, that for 1956 being the same as that for 1953.*[3]—Per capita consumption of meat from 1953 to 1956 was 19 percent above that from 1949 to 1952. Lower prices in recent years have probably prevented the reduction in cheese consumption that would have taken place had cheese prices been sustained at the 90 percent level.

3. *Government purchases of cheese have been reduced somewhat since 1953.*—In 1953 the Government purchased 21.6 percent of the total production of cheese. Government purchases in 1956 were materially less, being 13.4 percent of total production.

If consumer income is held at a high level, it is probable that the present high consumption of meats will be maintained if not increased, creating keen competition for cheese in the commercial market. Furthermore, a review of the facts indicates that high support prices for cheese are tending to perpetuate inefficient production of this product. Finally, the facts indicate that the disposal of Government purchases of cheese is far more difficult than disposal of butter. Hence it is recommended that consideration be given to reducing the support price of cheese 20 percent.

ARE SUPPORT PRICES OF NONFAT DRY MILK TOO HIGH?

In 1956 the production of nonfat dry milk totaled 1,500 million pounds, or 2½ times that of 1945 (643 million). Between these dates 7,100 million pounds, or 61 percent, was sold commercially, while 39 percent was bought by the Government (4,463 million). In 1956 commercial sales of this product (870 million pounds) were over three times those of 1945 (269 million). The American Dry Milk Institute is to be commended for its efforts, which have been directly associated with these increased sales.

Between 1953 and 1956, however, commercial sales of nonfat dry milk averaged only 54 percent of total production, while the Government purchased 46 percent. Furthermore, rapid expansion of the industry is now in process. Several new plants for processing nonfat dry milk being built in Minnesota, while expansion of present facilities is reported for Wisconsin and other producing areas. If support prices are continued at their present level, more and more nonfat dry milk will be produced to be sold to the Government for 16 cents or 14.25 cents a pound and then given away or sold at a low price for animal feed or for other uses.

A logical question is: In view of the increasing proportion of Government purchases to production, is the expansion now taking place in the long-time best interests of dairy farmers?

Those closely connected with the dry-milk industry believe the commercial sale of nonfat dry milk for use in baked goods, cottage cheese, packages for home use, meat processing, and other uses can be expanded to around a billion pounds a year, or an increase of about two-thirds in our present production. Furthermore, in view of the possible destruction of food supplies from bombing, it would seem wise to have a permanent stockpile of around 500 million pounds of this product available for use in emergencies. This volume could be rotated to prevent spoilage.

On the other hand, with new plants underway and expansion of old plants, a total production of 2 billion pounds or over is not only possible but probable if the present price at which nonfat solids are supported by the Government is continued.

In view of these facts, it is recommended that consideration be given to lowering the support prices of nonfat dry milk from 3 to 4 cents a pound below present support levels.

From a long-run viewpoint, such action might be expected to do two things:

1. Slow down the uneconomic expansion in the production of nonfat dry milk.

2. Stimulate the commercial sales of this product.

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[3] In 1956 Government purchases of cheese used for relief purposes averaged 0.6 pound per person compared with 0.1 pound in 1953.

Are Federal Milk Orders Acting as Barriers to Increased Milk Consumption?

By Roland W. Bartlett[1]

Although rules for determining the wholesale prices of grain, cotton, and butter have been prescribed by various agencies over a long period of years, it was not until 1933 that regulations were set up to determine wholesale prices of milk for any interstate market in the country with the approval of the Secretary of Agriculture. The Chicago Board of Trade, which regulates the grain trade, came into being on March 13, 1848.[2] The Cotton Exchange was established in New York in 1870 and in New Orleans in 1871, while the Elgin Butter Exchange commenced operations in 1872.

Why did regulation of milk prices come over half a century after this type of regulation had been established for grain, cotton, and butter? Probably the most important reason is that regulation of milk prices is far more complex than prices of grain, cotton, and butter. Because of its high degree of perishability, milk, unlike these other products, can be stored for only a short time even when properly refrigerated. Hence it is more difficult to establish standards of quality that are a prerequisite to formalized regulation. Furthermore, the fact that milk is not only highly perishable, but also bulky, limits the distance which it can be economically transported. Hence, instead of having a few terminal markets with standardized regulation, historically we have had separate milk markets, each with its own pricing pattern.

Federal milk-marketing agreements and orders are authorized by Congress and administered by the United States Department of Agriculture. They are designed to promote the interests of producers and to assure consumers of an adequate supply of milk. The basic functions of this program are to (1) insure an adequate supply of milk, (2) set minimum prices to be paid by distributors, (3) return proceeds to producers equitably, (4) audit dealers' reports, and (5) disseminate market information.

Under the Agricultural Adjustment Act of 1933, the Secretary of Agriculture was given the power to enter into marketing agreements with processors, producer associations, and others engaged in handling agricultural commodities in the current of interstate or foreign commerce. The secretary was also given the power to issue licenses that governed the parties engaged in handling such agricultural commodities. The licensing feature of the act was eliminated by an amendment in August 1935, and provision was made for issuing marketing agreements and orders.

Extremely low prices and pressure of producers who had to make a living and pay interest and taxes were the immediate reasons for the initiation of Federal legislation in 1933. A more fundamental reason, however, was the long series of disputes and misunderstandings between farmers and dealers that occurred throughout two decades before 1933. These disputes frequently culminated in milk strikes that were costly to all groups, including farmers, dealers, and consumers.[3]

On June 3, 1937, the Agricultural Marketing Agreement Act of 1937 was passed, authorizing the Secretary of Agriculture to enter into marketing agreements with producers, processors, and handlers of any agricultural commodity and to issue orders (regulating all handlers) on certain specified agricultural commodities. These commodities included milk, certain fruits and vegetables, tobacco, hops, honeybees, and certain naval stores. This act is the authority under which each of the 65 Federal orders regulating the market of milk now operate (1956). The act discusses in more detail than the Agricultural Adjustment Act just how Federal milk regulation operates.

How does actual consumption of milk compare with amounts recommended by nutritionists?

Nutritionists recommend 2½ to 3 glasses of milk daily for adults, 4 glasses for children 1 to 12 years of age, and as much as 6 glasses for rapidly growing chil-

[1] Professor of agricultural economics, department of agricultural economics, college of agriculture, University of Illinois, Urbana, Ill.

[2] Hibbard, B. H., Marketing Farm Products, Appleton & Co., New York, 1929, p. 119.

[3] For an excellent report on these factors in one market, see History and Analysis of Milk Supply Problems in the St. Louis Market, Glenn W. Freemyer, Production and Marketing Administration, U. S. Department of Agriculture, Washington, D. C., October 1950, 156 p.

dren in the teen-ages. On the basis of age distribution, this would mean a weighted average daily consumption of about 3.7 glasses, or 1.5806 pints of milk daily for each person in the United States (table 1). Actual milk consumption falls far below that recommended in most markets.

TABLE 1.—*Minimum milk requirements per person recommended by nutritionists*

Age group	Population		Pints of milk recommended daily per person [2]	Weighted daily average (pints daily)
	Number [1]	Percent		
12 years and under	36,322,990	24.18	2	0.4836
13 to 18 years	12,813,140	8.53	3	.2559
19 years and over	101,079,980	67.29	1¼	.8411
Total	150,216,110	100.00		1.5806

[1] Population figures based on a 20-percent sample, 1950 United States Census of Population, Department of Commerce, Bureau of Census.
[2] University of Illinois Circular 738, February 1955, table 1, p. 4.

TO WHAT EXTENT DOES PRICE AFFECT PER CAPITA CONSUMPTION OF MILK?

Many people, including the author, have made studies in an attempt to find out the effect of price on sales of milk. Exact answers have been difficult to obtain. In the first place, there has been a lack of accurate consumption data. Second, over a long period of time, many markets have had monopoly or administered prices rather than competitive prices. In this situation price-consumption analyses have had little or no meaning. And, finally, certain environmental factors also affect milk sales. Although further research is necessary to define more accurately the effect of price on milk sales, studies already reported indicate that—

1. Per capita sales of milk tend to increase with a decrease in price. The extent of the increase tends to vary in different markets and with different degrees of publicity.

2. People with low and medium incomes tend to make more use of low-priced milk than those in the high-income groups.

3. Per capita consumption of milk tends to increase as disposable income increases.

Every available scientific study indicates that per capita sales of milk tend to increase with a decrease in price. The extent of the change, however, varies widely in different markets. In 4 markets, the rate of change in per capita sales varied from 0.33 percent for each 1 percent of change in price in the New York market to a full percent or more of increase in per capita sales for each percent of decrease in price in the Washington and Kansas City markets (table 2).

TABLE 2.—*Does price affect per capita milk sales?*

[Percent]

City	Price change	Consumption change	Date
New York, N. Y.[1]	1.00	0.33	1938–40
Connecticut [2]	1.00	.48	1948–49
Washington, D. C.: [3]			
White	1.00	1.15	1940
Negro	1.00	1.40	1940
Kansas City [4]	1.00	1.00	1952–54

[1] Blanford, Charles J., The Demand for Milk and Cream as Revealed by Consumer Purchases at Retail Stores in New York City, Cornell Agricultural Experiment Station Bulletin 765; 1941.
[2] Brinegar, George K., Effect of Changes in Income and Price on Milk Consumption, Storrs Agricultural Experiment Station Bulletin No. 280; July 1951.
[3] Stiebeling, Hazel K., Adelson, Sadye F., and Blake, Ennis, Low-Priced Milk and Consumption of Dairy Products Among Low-Income Families, Washington, D. C., USDA Circular 645; May 1942.
[4] Bartlett, Roland W., Principles of Milk Marketing, unpublished book, 1956, ch. III, pp. 39 and 40.

Concerning this question, Spencer, of New York State, says: [4]

"* * * there is no factual support for the assertion sometimes made that consumers will not use significantly more milk, butter, cheese, etc., if the prices are reduced; nor for the equally absurd notion that consumers will continue to buy and eat approximately the same quantities if the retail prices are raised 10, 20, and 30 percent."

WHAT GOVERNMENTAL PRICE REGULATIONS ARE IN THE PUBLIC INTEREST?

Since present consumption of milk is substantially lower than that recommended as necessary for an adequate diet, and since people drink more milk when prices are lower, two conclusions follow relative to governmental regulations:

1. Regulations that encourage a per capita consumption of milk in line with nutritional needs by eliminating destructive competition and by encouraging greater efficiency in milk production and distribution are in the public interest.

2. Regulations that operate to prevent the use of new inventions and new methods, or to keep class I prices at an unduly high level, in turn curbing milk consumption, are against the public interest.

TABLE 3.—*Utilization percentages in 14 Federal order markets where milk supplies in shortage months were too small to supply market needs, 1954* [1]

Markets	Type of pool [2]	Percentage that milk receipts were of utilization	
		October 1954	November 1954
Markets over 500,000 population:			
St. Louis	M	99	103
San Antonio	M	80	78
Markets under 500,000 population:			
Tri-State	H	103	95
Merrimack Valley	M	100	95
Paducah	M	101	99
Rockford-Freeport	M	101	101
Fort Smith	M	99	96
Sioux Falls-Mitchell	M	99	95
Memphis	H	97	98
Toledo	H	97	102
Knoxville	M	94	90
Worcester	M	89	85
Fall River	H	82	74
Central Texas	M	81	82

[1] Adapted from regulations affecting the movement and merchandising of milk, USDA Marketing Research Rept. No. 98, June 1955, p. 47, table 18.

[2] M = marketwide pool; H = individual-handler pool.

WHAT CHANGES HAVE TAKEN PLACE IN MILK RESERVES IN FEDERAL ORDER MARKETS IN RECENT YEARS?

A review of milk supplies as related to utilization for 48 Federal order markets for October and November 1954 showed that—

1. Fourteen markets had too little milk in the shortage months to meet markets needs (table 3).

2. Eight markets had reserves larger than necessary (35 percent) to meet market needs (table 4).

3. Twenty-six markets fell between those with surpluses and extreme shortages (table 5).

[4] Spencer, Leland, professor of marketing, Cornell University, Ithaca, N. Y., in an address before the National Dairy Council of Canada, 1954.

TABLE 4.—*Utilization percentages in 8 Federal order markets where supply in shortage months was higher than necessary to supply market needs, 1954* [1]

Markets	Type of pool [2]	Percentage that milk receipts were of utilization	
		October 1954	November 1954
Markets over 500,000 population:			
Puget Sound (Seattle)	M	159	145
Boston	M	153	137
New York	M	148	143
Cleveland	M	137	139
Markets under 500,000 population:			
Duluth-Superior	M	165	170
Fort Wayne	M	153	139
Quad Cities	M	137	138
Cedar Rapids-Iowa City	M	136	141

[1] Same source as table 3, footnote 1.
[2] M=marketwide pool.

TABLE 5.—*Utilization percentages in 26 Federal order markets not included in tables 3 and 4, 1954* [1]

Markets	Type of pool [2]	Percentage that milk receipts were of utilization	
		October 1954	November 1954
Markets over 500,000 population:			
Detroit	M	134	132
Chicago	M	131	135
New Orleans	H	130	133
Louisville	M	125	126
Kansas City	M	124	134
Philadelphia	H	124	123
Cincinnati	M	110	112
Milwaukee	H	108	106
Minneapolis-St. Paul	H	107	114
North Texas (Dallas)	M	106	105
Markets under 500,000 population:			
Lima	H	133	
Wichita	M	132	133
Dubuque	M	129	140
Neosho Valley	M	129	143
Muskegon	M	125	119
South Bend-LaPorte	M	124	118
Stark County	M	122	120
Dayton-Springfield	M	121	118
Oklahoma	M	119	119
Tulsa-Muskogee	M	118	119
Columbus	M	114	107
Nashville	M	112	121
Sioux City	M	112	112
Springfield	M	112	106
Topeka	M	113	128
Omaha	M	111	114

[1] Same source as table 3, footnote 1.
[2] M=marketwide pool; H=individual-handler pool.

The most significant fact shown in this study was that 40 out of 48 Federal-order markets did not have excessive reserves in October and November 1954. For the United States as a whole, Federal orders have created stability and have probably helped to increase per capita milk consumption above what it would have been without this type of regulation.

HAVE CLASS I PRICES BEEN EXCESSIVE IN THE FEDERAL ORDER MARKETS WHICH HAD UNNECESSARILY HIGH RESERVES?

A comparison of changes in class I prices for each of 15 large Federal-order markets from 1929 to 1954 (table 6) showed that in 1954 class I prices in New

York averaged $2.16 per hundredweight above those in Chicago and Minneapolis-St. Paul. From 1929 to 1946 the difference was 90 cents (table 7).

In the Boston market, the 1954 class I price was $1.79 above Midwest class I prices, or $1.01 above the 1929–46 level (table 7).

In Seattle (Puget Sound) the class I price averaged $1.08 per hundredweight above Midwest prices, or $1.40 above the 1929–1946 level (table 7).

In the Cleveland market, the class I price averaged 73 cents per hundredweight above class I prices in the Midwest (table 7). Between 1929 and 1946, the class I price averaged the same in Cleveland as in Chicago and Minneapolis-St. Paul.

No attempt was made in this study to analyze class I price changes in any of the smaller markets. In an attempt, however, to throw more light on the question, a more detailed analysis was made of changes in prices, consumption, and consumer income in New York, Chicago, and the United States. This analysis showed the following:

1. Between 1945 and 1954, daily per capita consumption of milk in New York fell 18 percent (fig. 1) compared with a decrease of 11 percent in the entire United States and an increase of 6 percent in Chicago.

2. Between 1945 and 1954, per capita disposable income increased somewhat less in New York than in Chicago or the United States (fig. 2).

3. In 1925, the lowest reported store price was 3.9 cents a quart less in New York than in Chicago; in 1954, the store price was 3.4 cents a quart more in New York than in Chicago (fig. 3).

4. In 1955, 33 percent of the milk in Chicago was sold in gallons and 37 percent in half-gallon containers (fig. 4); in New York, it is illegal to sell milk in gallon jugs and only a small volume is sold in half-gallon containers.

5. Between 1940 and 1954 the Chicago class I price was kept closely in line with prices of manufactured milk (figs. 5 and 6). Class I prices in New York in recent years have been kept materially above the competitive level of class I prices in the Midwest (figs. 7 and 8), as well as above prices of manufactured milk.

Earlier studies have shown that price and disposable income were the two most important factors affecting per capita sales of milk.[5] Summarizing the above facts, one finds that (1) in recent years retail milk prices have been relatively much higher in New York than in Chicago, (2) class I prices in New York have been much higher than formerly in relation to Midwest class I prices, (3) per capita disposable income has increased less in New York than in Chicago, (4) the New York market is lagging behind Chicago in the use of new methods and new technologies, and (5) the New York market now has more milk in surplus months than is necessary to meet market needs.

With these facts in mind, it is reasonable to believe that one of the factors causing lower per capita milk sales in the New York market has been the unnecessarily high prices for class I milk under its Federal milk order.

IS THE NEW YORK SITUATION TYPICAL OF THE NORTHEAST?

Three Federal-order markets in the Northeast are Boston, New York, and Philadelphia. In 1954, per capita milk consumption in these 3 markets was 15 percent below that of 1945, compared with an 11 percent decrease in the entire United States (fig. 9), and a 6 percent increase in Chicago. Milk sales for the United States were about 1 percent higher in 1954 than in 1950, while sales for these 3 markets decreased 4 percent during the same period.

Pierce and Voight, of Pennsylvania State University, have pointed out that between 1938–40 and 1955, milk production in Pennsylvania increased 30 percent while population increased less than 10 percent, and that most of the other States in the Northeast follow this trend.[6]

In contrast, for the United States as a whole, they found that between 1939–40 and 1955 population increased 35 percent compared with only 15 percent in milk production. They pointed out further that[7] "* * * in 1954, Pennsylvania milk dealers paid an average of $5.82 per hundredweight for milk (4 percent) used as fluid milk. For milk for nonfluid uses, they paid less than $3.34. As

[5] Illinois Farm Economics, June 1953, p. 1484 to 1487.

[6] Between 1940 and 1954, milk production in the Northeast increased 24 percent, or 50 percent faster than the increase in population (16 percent).

[7] Pierce, C. W., and Voight, Alvin, Is Population the Answer to Milk Prices? Pennsylvania Farm Economics, November 1955, No. 6, pp. 1 and 4.

more milk has been produced relative to the number of available consumers, a greater proportion of the total production has been channeled into lower-priced nonfluid uses. Consequently the blend price to dairy farmers has decreased progressively. It follows that unless consumers use more milk per person than they do now, or we cease expanding milk production, prices to farmers will be increasingly 'unsatisfactory.' * * * The increase in milk production in Pennsylvania since 1947–48 will take care of all the population added to in the State during the next 25 years, assuming no change in the rate of population growth."

Class I pricing of non-Federal-order markets in the Northeast has followed the same trend as that in the Federal-order markets. In 1954, the average class I price in Baltimore, Buffalo, Pittsburgh, Rochester, and Washington averaged $2.51 per hunredweight above the average class I price in Chicago and Minneapolis-St. Paul. This was $2.07 more than the difference for 1929–46 (43 cents). In the 3 Federal-order markets, class I prices in 1954 were $2.02 per hundredweight above the Midwest class I price, or somewhat less than the difference in non-Federal-order markets.

Summarizing the above facts, one finds that—

1. In recent years per capita consumption in Federal order markets has decreased more in the Northeast than in the country as a whole.
2. Population is increasing at a much slower rate in the Northeast than in the country as a whole.
3. Milk surpluses above fluid needs have increased much faster in the Northeast than in the country as a whole.
4. Class I prices in Federal order markets, in State-controlled markets, and in unregulated markets of the Northeast have been excessively high in recent years compared with class I prices in Midwest markets.

Lower milk consumption and increasing surpluses in the Northeast are contributing to the national surplus of milk. In setting class I prices that are higher than necessary to insure an adequate volume of milk in Federal milk orders in such markets as Boston and New York, the Federal Government is giving official sanction to similar prices in markets under State regulation or under no regulation in this region. In essence, Federal order class I pricing is the pacesetter for all class I pricing of milk in the Northeast. Hence, Federal officials responsible for pricing of milk in Northeast markets must accept, in part at least, the responsibility for lower per capita milk sales and increasing milk surpluses not only for Federal order markets in this area, but also for other markets that lean on Federal regulations in establishing their class I prices. More realistic pricing of class I milk in New York and Boston tend to produce similar prices in other markets in the Northeast.

Federal officials clearly are not responsible for lower per capita sales resulting from lower consumer income or failure of northeastern markets to use new methods and new technologies that stimulate milk consumption in some of the more progressive markets of the country.

CAN THE FLUID-MILK INDUSTRY LEARN ANY LESSONS IN PRICING FROM OTHER INDUSTRIES?

The cotton industry.—The proportion of per capita consumption of such synthetcs as nylon, dacron, and rayon to total production of cotton, wool, and synthetics, increased from 10 percent in 1939 to 23.3 percent in 1953 (fig. 10). If the present trend continues, by 1980 these newer products will make up nearly half of all fibers used.

United States exports of cotton from 1925 to 1929 averaged 8.8 million bales; by 1955 our exports had declined to 3.8 million bales.

Cotton is pricing itself out of a market.

The coal industry.—Only a few years ago we had a series of strikes and stoppages that brought an increase in wages for coal workers. In 1953, consumers in the United States bought only 61 pounds of coal for every 100 pounds purchased in 1943 (fig. 11). In 1953 consumers paid $1.79 for the same quantity of coal they bought for $1 in 1943. In 1953 only 65 persons were employed in the coal industry for every 100 employed in 1943.

The coal industry is pricing itself out of a market.

The electric industry.—In 1953 the per capita consumption of electricity in the United States averaged 224 kilowatt-hours per person, or just double that

of 1943 (112 kilowatt-hours). The price per kilowatt-hour in 1953 was only 9 percent above that in 1943. For every 100 persons employed in the electric industry in 1943, 123 were employed in 1953.

The key to longtime prosperity in the dairy industry, as in the electric industry, is mass production and distribution at low prices.

ARE MASS PRODUCTION AND DISTRIBUTION OF MILK POSSIBLE ON A NATIONWIDE BASIS?

In my opinion, the milk industry is now on the threshhold of the most revolutionary change that has ever taken place: the interstate sale of concentrated milk on a widespread basis.[8] This change is likely to take place in two stages. The first stage will be the sale of fresh concentrated milk that has to be kept under refrigeration. A 3-to-1 concentrated milk can be transported for one-third the cost of whole milk. If a market now receives whole milk within a radius of 200 miles, transportation costs for concentrate would be no higher in a radius of 600 miles. This economic factor alone would seem to be sufficient reason for the widespread development of concentrate sales. Actually, however, two other factors that will accelerate concentrate sales are high distribution costs and class I prices higher than will be necessary to obtain an adequate supply of milk.

The second stage will be the sale of a sterile, storable high-quality concentrate that can be reconstituted with no undesirable flavor. Scientists in several parts of the United States are working on this development. In view of the progress that has been made in developing high quality in nonfat dry milk solids, the high-quality storable, sterile concentrated milk and a high-quality dry whole milk appear to be attainable within the next few years. When such products appear on the market, they will sound the death knell of excessive milk distribution costs and will tend to lower class I prices in all high-cost areas.

Evaporated milk moves in interstate shipments with no trade barriers. Evaporated milk has had the approval of those administering the Pure Foods and Drugs Act since World War I. There would appear to be no good reason why a high-quality storable, sterile concentrate should receive any treatment in interstate commerce different from that given to evaporated milk.

ACTUAL MARKETS FOR FRESH CONCENTRATED MILK

Fresh concentrated milk has been sold in several hundred stores in California since June 1951. The lower the price in relation to whole milk, the higher the sales, as the data on the next page will show.

Concentrate as proportion of whole milk sales

Price differential:	*Percent*
3 cents lower	25
2⅓ cents lower	15
½-cent lower	Negligible

In addition to commercial sales of the product, Dr. C. A. Iverson, of Iowa State College, has been selling fresh concentrated milk to around 500 farmers near Ames since August 1951. Deliveries to these farms have been on a once-a-week basis. In this experiment the concentrate has been priced at the prevailing price of whole milk in the area served.

Three quarts of whole milk, when concentrated on a basis of 3 to 1 can be packaged in a single quart. If the paper container costs 2 cents a quart, it would cost 6 cents to package 3 quarts of whole milk. Since 1 quart of concentrate equals 3 quarts of whole milk and can be packaged in 1 container, a saving of 4 cents is possible for every quart of concentrate. This 4-cent saving is slightly more than the cost of concentrating milk on a 3-to-1 basis.

By elimination of the two parts of water, concentrated milk can be transported for one-third the cost of transporting whole milk. Thus for 1 cent one-third quart of concentrate can be transported from Chicago to Baltimore, Boston, New Orleans, New York City, Rochester, Pittsburgh, or Providence.

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[8] A copy of the paper, Concentrated Milk: Actual and Potential Markets, from which this was taken, may be obtained upon request from the author.

TABLE 6.—*Average class I prices paid for 3.5-percent milk in specific Federal order markets, 1947 to 1954; and 1929 to 1946 and 1947 to 1954 averages* [1]

[Per 100 pounds of milk]

Markets	1947	1948	1949	1950	1951	1952	1953	1954	Average	
									1929 to 1946	1947 to 1954
New York (f. o. b. city) [2]	$5.64	$6.40	$5.98	$5.74	$6.38	$6.26	$5.98	$5.89	$3.52	$6.03
New Orleans	4.93	5.33	5.13	5.38	5.68	6.03	6.01	5.85	2.58	5.54
Boston	5.40	6.16	5.81	5.50	5.95	6.03	5.54	5.52	3.40	5.74
Philadelphia	4.92	5.32	5.33	5.04	5.64	5.99	5.69	5.39	3.01	5.42
Dallas	5.03	5.71	5.46	4.89	5.88	6.30	5.58	5.09	2.49	5.49
Seattle	5.10	5.18	4.58	4.46	5.23	5.57	5.00	4.81	2.30	4.99
Cincinnati	5.37	5.25	4.34	4.28	5.08	5.40	4.63	4.56	2.65	4.86
Louisville	4.48	5.10	4.29	4.22	4.99	5.34	4.82	4.46	2.62	4.72
Cleveland	4.50	5.18	4.14	4.03	5.04	5.14	4.87	4.46	2.62	4.71
Kansas City, Mo	4.37	4.94	4.22	4.20	4.93	5.42	4.70	4.32	2.51	4.64
Detroit	4.74	5.19	4.64	4.25	5.03	5.25	4.67	4.29	2.64	4.76
St. Louis	4.56	4.19	4.28	4.19	4.80	5.40	4.80	4.80	2.55	4.63
Milwaukee	4.44	4.86	3.75	3.66	4.35	4.84	4.12	3.68	2.60	4.21
Chicago [3]	4.16	4.78	3.77	3.68	4.39	4.81	4.16	3.73	2.46	4.18
Minneapolis	4.16	4.59	3.79	3.74	4.30	4.65	4.19	3.71	2.33	4.14
Average of Chicago and Minneapolis-St. Paul	4.16	4.69	3.78	4.71	4.34	4.70	4.18	3.73	2.62	4.16

[1] If the Federal order became effective before 1940, all class I prices used from 1940 to 1954 were those obtained through the courtesy of Herbert Forest, Director, AMS, USDA, subject to transportation differentials. If the order became effective after 1940, the class I prices used were those obtained from Mr. Forest since the date that order became effective. All other class I prices were obtained from USDA fluid milk and cream reports.

[2] Includes country plant charges plus average freight to New York City.

[3] 70-mile zone.

TABLE 7.—*Average amount that class I prices in specific markets exceeded or fell below the average class I price of Chicago and Minneapolis-St. Paul, 1947 to 1954, and 1929 to 1946 and 1947 to 1954 averages* [1]

[Per 100 pounds of milk]

Markets	1947	1948	1949	1950	1951	1952	1953	1954	Average	
									1929 to 1946	1947 to 1954
New York	$1.48	$1.71	$2.20	$2.03	$2.04	$1.56	$1.80	$2.16	$0.90	$1.87
New Orleans	.77	.64	1.35	1.67	1.34	1.33	1.83	2.12	−.04	1.38
Boston	1.24	1.47	2.03	1.79	1.61	1.33	1.36	1.79	.78	1.58
Philadelphia	.76	.63	1.55	1.33	1.30	1.29	1.51	1.66	.39	1.26
Dallas	.87	1.02	1.68	1.18	1.54	1.60	1.40	1.36	−.13	1.33
Seattle	.94	.49	.80	.75	.89	.87	.82	1.08	−.32	.83
Cincinnati	1.21	.56	.56	.57	.74	.70	.45	.83	.03	.70
Louisville	.32	.41	.51	.51	.65	.64	.64	.73	-------	.56
Cleveland	.34	.49	.36	.32	.70	.44	.69	.73	-------	.55
Kansas City, Mo	.21	.25	.41	.49	.59	.72	.52	.59	−.11	.48
Detroit	.58	.50	.86	.54	.69	.55	.49	.56	.02	.60
St. Louis	.40	−.50	.50	.48	.46	.70	.62	1.07	−.07	.47
Milwaukee	.28	.17	−.03	.05	.01	.14	−.06	−.05	−.02	.05

[1] Based upon data in table 6.

TABLE 8.—*Increase in price of market milk [1] compared with price of evaporated milk, 1919 and 1954 [2]*

Region	Number of markets [3]	Difference between price of fresh milk and price of evaporated milk (cents per quart)	
		1919	1954
South	15	1.69	8.87
Northeast	14	−1.02	7.78
West	7	−1.66	5.31
Midwest	14	−2.07	2.47
United States	50	−.54	6.27

[1] Source: USDA, Fluid Milk and Cream Reports, and USDL, Retail Food Prices by Cities.
[2] 1 can of evaporated = 14½ ounces concentrated 2.2:1; 2.2×14½=31.9 ounces. 1 quart of milk=2.15 pounds; 2.15×16=34.4 ounces. 34.4÷31.9=1.07836. Multiply 1.07836 by the retail price of evaporated milk to find what a quart of milk would cost at the evaporated price.
[3] Data for each market will be sent upon request.

TABLE 9.—*Net amount which price per quart of fresh milk in specific cities exceeded price per quart of evaporated milk* [1]

[Cents per quart]

Cities	1919	1954
Jacksonville	0.48	12.24
New Orleans	1.30	11.23
Atlanta	5.93	10.55
New Haven	.03	9.90
Buffalo	−.81	9.27
Rochester	−1.89	8.66
Pittsburgh	−1.03	8.38

[1] Source: Table 8, footnote 1.

POTENTIAL MARKETS FOR CONCENTRATE

If consumers buy 1 quart of milk in concentrated form for every 4 quarts of whole milk when the price is 3 cents lower, how much would they buy if the difference were increased to 5 cents, 7 cents, or even 9 cents a quart?

WILL FEDERAL MILK ORDERS BE USED TO CURB THE SALE OF CONCENTRATE?

According to authorities administering the Federal milk order, fresh concentrate will be included as class I milk at the market in which it originates, not in the market where it is sold. For example, if a Chicago firm sells fresh concentrate in New Orleans, the volume processed into concentrate will be included as class I milk in Chicago. Presumably, for statistical purposes, the Chicago market administrator will keep the New Orleans administrator informed from time to time about the volume of concentrate being sold in the New Orleans market.

SUMMARY

1. In 40 out of 48 Federal-order markets, milk reserves in the shortage months in 1954 did not exceed those needed to insure an adequate volume to supply market needs.

2. On a national basis, Federal milk orders have helped to increase the per capita consumption of milk.

3. In specific areas, Federal-order class I prices have been higher than necessary to insure an adequate volume of milk.

4. Excessive class I prices have been one reason for lower milk sales in some Federal-order markets, such as New York City.

5. Excessive class I prices, including those in Federal-order, State-controlled, and unregulated markets, have caused excessive surpluses of milk, particularly in the milk-producing areas of the northeastern part of the United States.

HOW CAN EXCESSIVE FEDERAL ORDER CLASS I PRICES BE BROUGHT INTO LINE?

Answers to this question will vary. In my opinion, there are three ways to bring excessive prices into line:

1. Publicize the facts.
2. Increase the competition offered by concentrated milk produced in low-cost areas and sold in high-priced markets.
3. Introduce remedial legislation, if necessary.

Most important in correcting the problem is knowledge of its existence. Publicizing the facts can tend to prevent future class I prices from being set substantially above those of competitive products.

Potential competition of fresh concentrated milk from the Chicago milkshed has already resulted in a request by Federal-order officials to lower the class I price in New Orleans 40 cents per 100 pounds. It is reasonable to believe that, as fresh concentrate competes with class I milk in other high-priced markets, its sale will tend not only to lower the distributor's spread, but also to lower the class I price to a more realistic level.

And, while I hope that it will not be necessary, remedial legislation of Federal milk orders can be introduced if those administering such orders continue to permit class I milk to be priced higher than necessary to insure an adequate volume. Such legislation should not be attempted until after other ways of attaining the desired objective have failed.

EXHIBIT II.—Charts (figures 1 to 11)

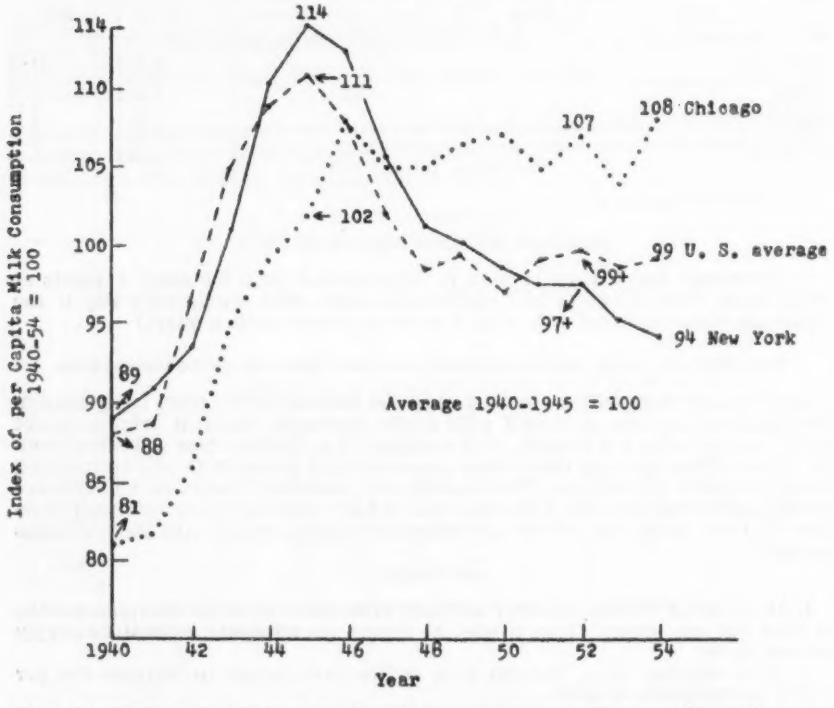
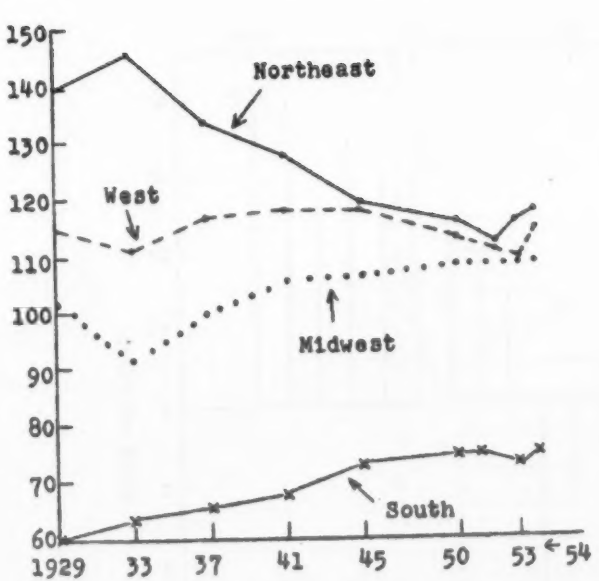


Fig. 1. Indexes of Daily per Capita Consumption of Milk, 1940-1954



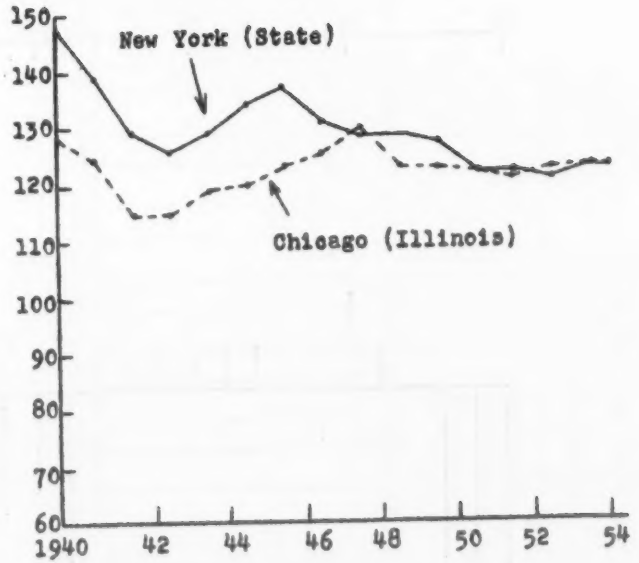


Fig. 2. Proportions That per Capita Disposable Incomes in Specific Regions and States Were of Those in the United States

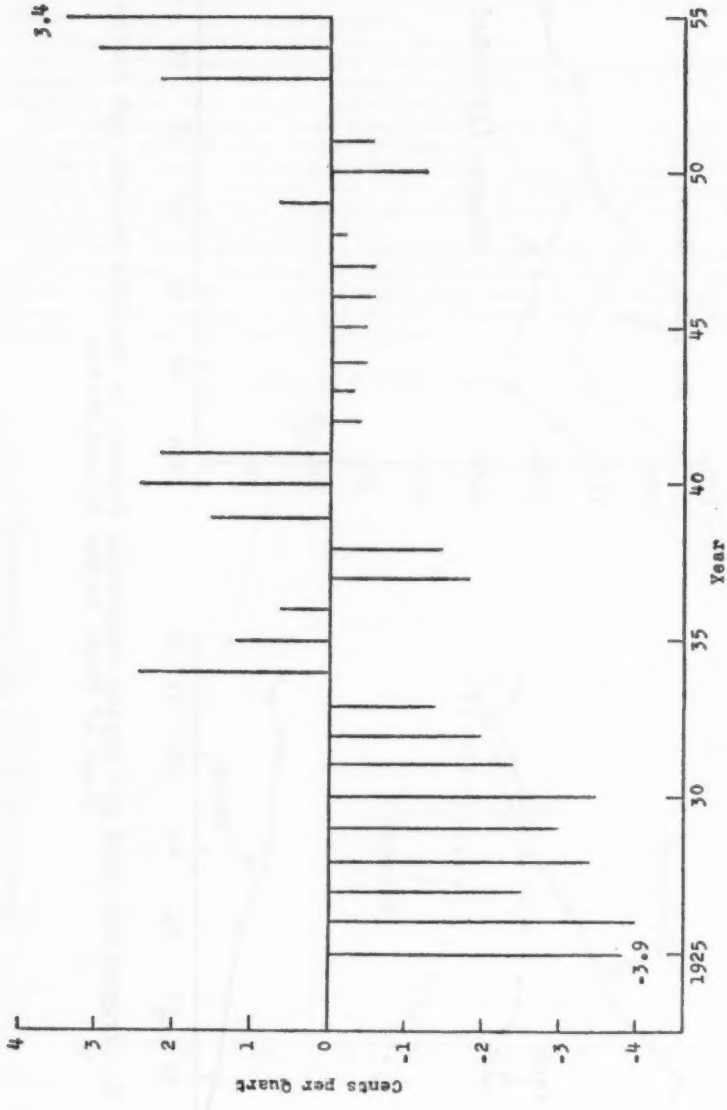


Fig. 3. Amount That Lowest Reported Store Price of Milk in New York Was Below or Above That in Chicago, 1925-1955

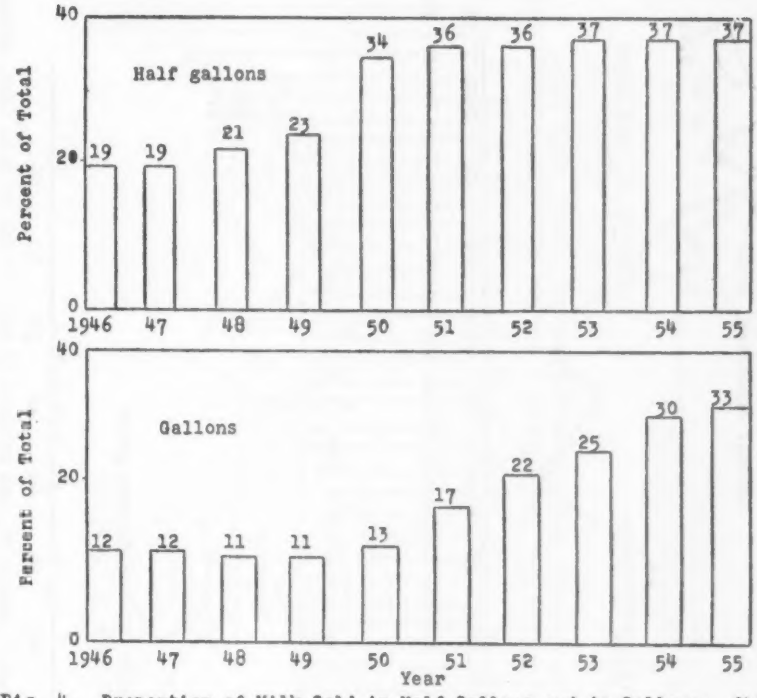


Fig. 4. Proportion of Milk Sold in Half-Gallons and in Gallons: Chicago

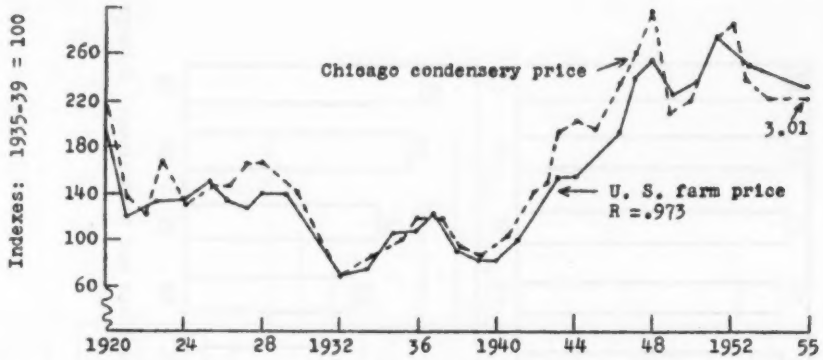


Fig. 5. Changes in Chicago Condensery Prices and United States Farm Prices, 1920-54

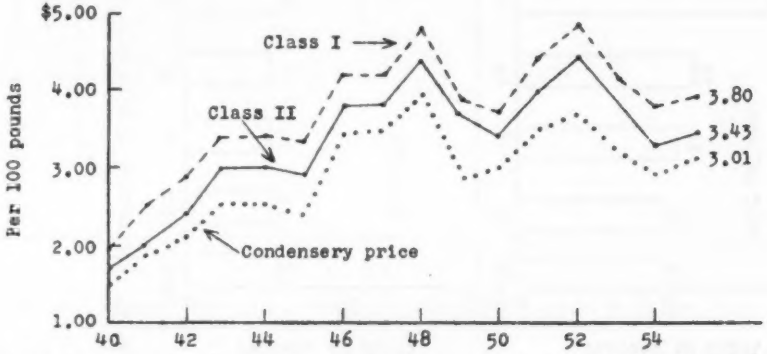


Fig. 6. Prices for Class I, Class II, and Condensery Milk in the 70-Mile Zone, Chicago, 1940-54

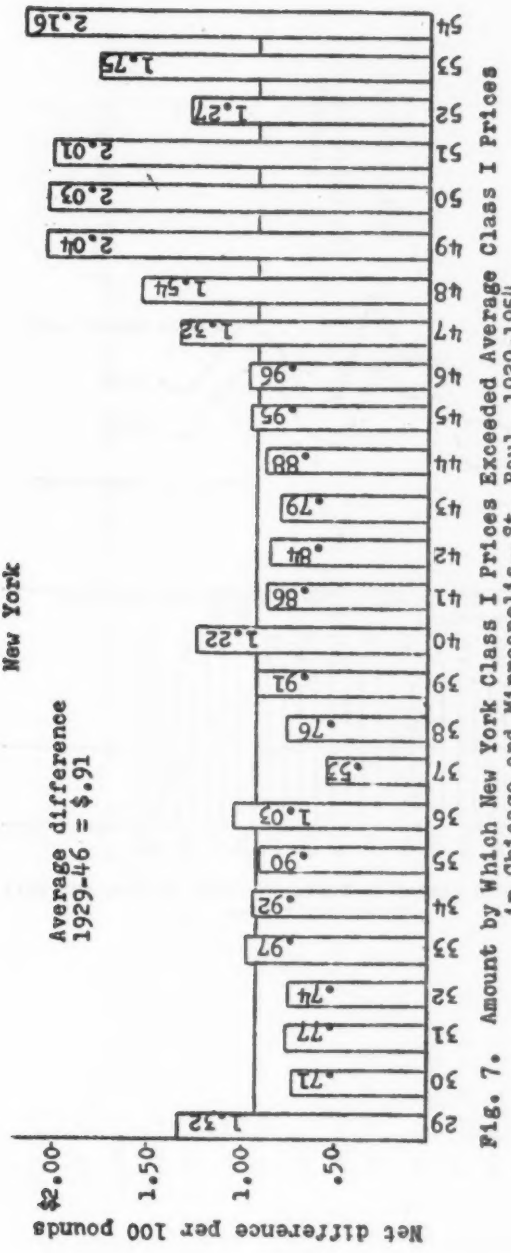


Fig. 7. Amount by Which New York Class I Prices Exceeded Average Class I Prices in Chicago and Minneapolis—St. Paul, 1929-1954

	Per Cwt.	Per Qt.
Difference 1954	$2.16	4.6¢
Av. difference, 1929-1954	.90	1.9¢
Net increase	$1.26	2.7¢

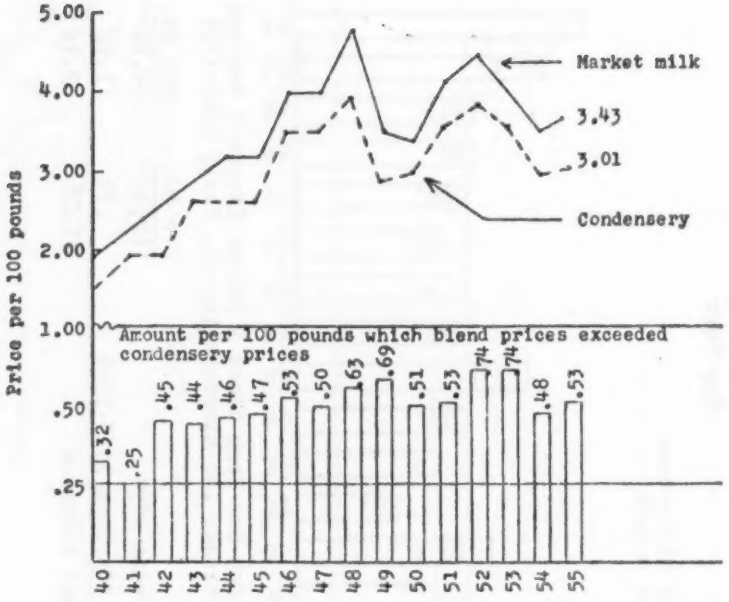


Fig. 8. Chicago Blend Prices to Producers Tend to Rise and Fall With Condensery Prices

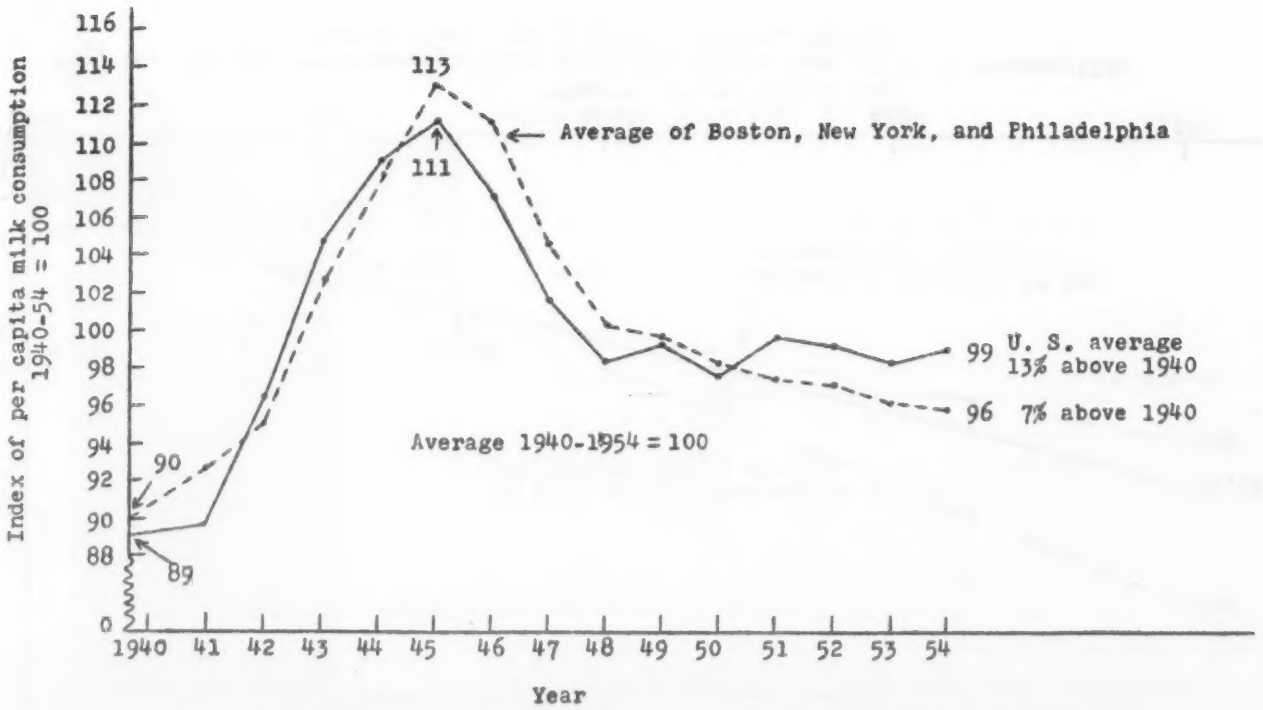


Fig. 9. Indexes of Daily per Capita Consumption of Milk, 1940-1954

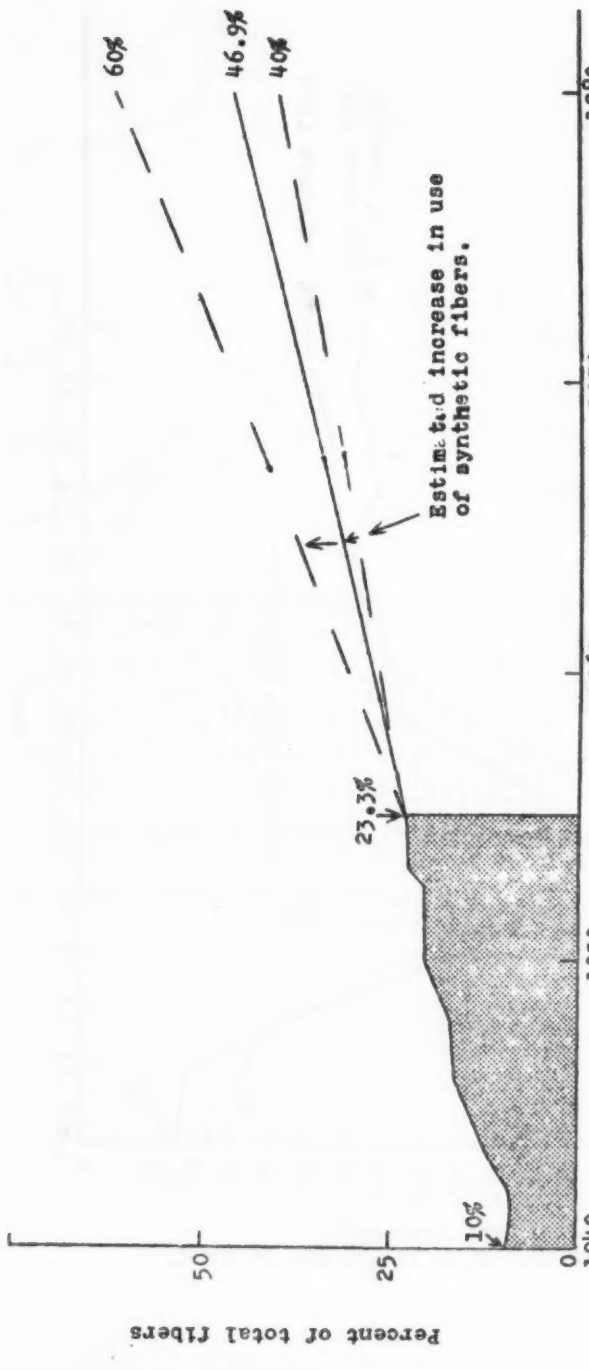


Fig. 10. Changes in Proportion That Synthetic Fibers Were of Total Consumption of Cotton, Wool, and Synthetic Fibers, 1939-53

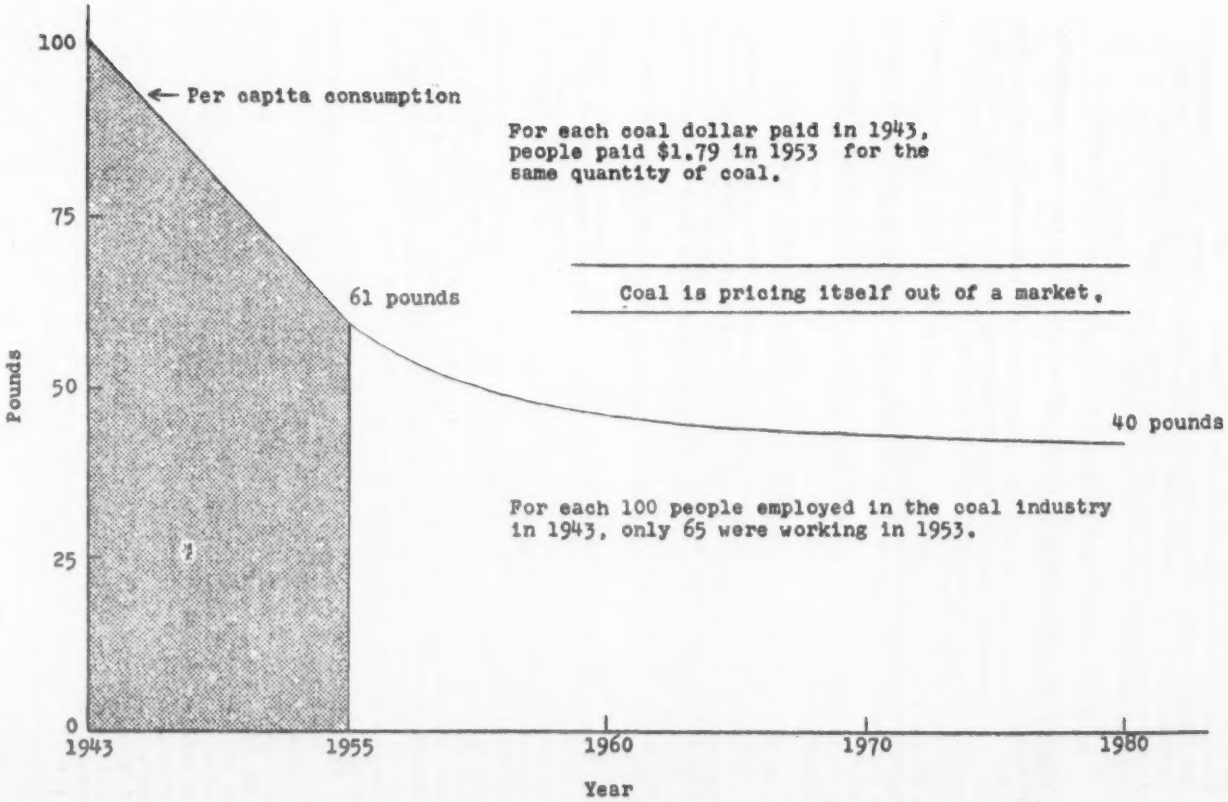


Fig. 11. Changes in per Capita Consumption of Coal, 1943-53

SUMMARY STATEMENT OF DR. ROLAND W. BARTLETT

1. To what extent does price affect per capita sales of milk?
2. Economic principles underlying the pricing of milk to producers.
3. Are Federal milk orders acting as barriers to increased milk consumption?
4. Economic principles underlying the processing and distribution of milk.
5. Is State control of consumer prices for milk in the public interest?
6. Concentrated milk: Actual and potential sales.

TO WHAT EXTENT DOES PRICE AFFECT PER CAPITA SALES OF MILK?

1. Present per capita consumption of milk falls far below that recommended by nutritionists.

2. Per capita sales of milk tend to increase with a decrease in price. The extent of the increase tends to vary in different markets and the extent that price decreases are accompanied with widespread publicity in newspapers in the market where the milk is sold.

3. People with low and medium incomes tend to make more use of low-priced milk than those in the high-income groups.

4. Per capita consumption of milk tends to increase as disposable income increases.

5. An increase in store sales of milk tends to increase per capita milk sales on a marketwide basis.

ECONOMIC PRINCIPLES UNDERLYING THE PRICING OF MILK TO PRODUCERS

1. Under the law of comparative advantage, farmers tend to produce products where costs of getting them produced plus transportation costs are the lowest. If Wisconsin or Minnesota farmers can produce high-quality milk and transport it to Florida or Texas cheaper than it can be produced in these States, it should be produced in the northern areas.

2. The laws of price equilibrium as applied to farm products include the following principles:

(*a*) Prices of farm products tend to rise and fall together. Under competition, if the price of one commodity gets materially higher than that of another, many farmers will turn to the production of the higher priced product. Increased production, in turn, will tend to lower the price of this product to its equilibrium level with other products.

(*b*) If the demand for a particular farm product increases or decreases relative to that for all farm products, its price will tend to rise or fall relative to that for all farm products. In agriculture the best example of this principle is the decline in the demand for horses. In 1910, there were 24 million horses and mules on farms; in 1954, 5 million. From 1910 to 1914 a horse was worth nearly 3 times as much as a good dairy cow; in 1954, 1 cow was worth as much as 3 horses.

3. The principle of classified pricing of milk recognizes that—

(*a*) The price of market milk is higher than that of condensery milk because of higher costs of quality, uniform production throughout the year, and transportation.

(*b*) The price paid producers for evaporated milk tends to be higher than that paid for milk used as butter or cheese, since evaporated uses all of the total solids in milk, and, since its production requires high capital expenditures, unit costs of getting a supply of milk sufficient to operate a condensery economically usually are higher than those for milk manufactured into cheese or butter.

4. The principle of uniform production of milk recognizes the facts that—

(*a*) Peak loads result in unit cost of operation greater than for a fairly constant output; and

(*b*) The demand for market milk is relatively constant throughout the year. Elimination of wide seasonal surpluses not needed for market milk uses, lowers unit costs of operation of trucks and milk plants, and makes it possible to supply the market needs with a lower volume of the higher priced grade A milk, since less volume has to go into manufactured uses.

ARE FEDERAL MILK ORDERS ACTING AS BARRIERS TO INCREASED MILK CONSUMPTION?

1. In 40 out of 48 Federal order markets, milk reserves in the shortage months in 1954 did not exceed those needed to insure an adequate volume to supply market needs.

2. On a national basis, Federal milk orders have helped to increase the per capita consumption of milk.

3. In specific areas, Federal order class I prices have been higher than necessary to insure an adequate volume of milk.

4. Excessive class I prices have been one reason for lower milk sales in some Federal order markets, such as New York City.

5. Excessive class I prices, including those in Federal order, State-controlled, and unregulated markets, have caused excessive surpluses of milk, particularly in the milk-producing areas of the northeastern part of the United States.

How can excessive Federal order class I prices be brought into line?

Answers to this question will vary. In my opinion there are three ways to bring excessive prices into line:

1. Publicize the facts.

2. Increase the competition offered by concentrated milk produced in low-cost areas and sold in high-priced markets.

3. Introduce remedial legislation, if necessary.

Most important in correcting the problem is knowledge of its existence. Publicizing the facts can tend to prevent future class I prices from being set substantially above those of competitive products.

It is reasonable to believe that, as concentrated milk competes with class I milk in high-priced markets, its sale will tend not only to lower the distributor's spread but also to lower the class I price to a more realistic level.

And, while I hope that it will not be necessary, remedial legislation of Federal milk orders can be introduced if those administering such orders continue to permit class I milk to be priced higher than necessary to insure an adequate volume. Such legislation should not be attempted until after other ways of attaining the desired objective have failed.

ECONOMIC PRINCIPLES UNDERLYING PROCESSING AND DISTRIBUTION OF MILK

Some of the economic principles underlying the distribution of milk are:

(1) Distribution margins for food including those for milk products tend to change directly with changes in the general price level. Thus when the price level is rising, margins tend to rise. When the price level is falling, distribution margins also tend to decrease.

(2) In contrast to the above principle, the proportion of the consumer's food dollar used for distribution costs tends to change inversely with the general level of wholesale prices.

Distribution margins are more "sticky" than farm prices; they increase less than farm prices during periods of rising prices, and they decrease less than farm prices during periods of declining prices.

(3) Under competition, new technology which can be effective in lowering unit distribution costs or is otherwise helpful in expanding the outlets for milk, tends to be introduced by the more progressive distributors, and tends to force all distributors in the market to meet this competitive force. Those unable to adjust their businesses to get lower unit costs either are forced out of business, or merge with others in the dairy business.

(4) In contrast, under monopoly the established distributors tend to slow down or prevent the introduction of new, low-cost methods, and thereby tend to curb increases in per capita sales of milk which would have taken place under competitive conditions. This permits the inefficient as well as the efficient distributors to continue in the milk business.

(5) Under the law of substitution, a new or improved food product tends to be substituted for an old food product if the price of the new product is materially below that of the old product, or if changes in disposable income or in diet tend to discourage the use of the old product.

Examples of this are:

(*a*) Substitution of synthetic fibers in place of cotton.

(*b*) Substitution of margarine in place of butter.

(*c*) Substitution of nonfat dry milk solids in place of evaporated milk.

(*d*) Substitution of protein foods such as meat, milk, cheese, poultry, and eggs in place of cereal products and potatoes.

18 STATE CONTROL OF CONSUMER MILK PRICES IN THE PUBLIC INTEREST

1. The multiplicity of products and sizes of containers on which prices must be fixed greatly complicates the problem facing a state control agency.
2. Enforcement of minimum prices charged stores, restaurants, and other wholesale outlets is difficult, if not impossible. In some markets secret discounts, rebates, tie-in sales, loans and gifts have become so general that they are the rule rather than the exception.
3. The regulation of public utilities by law is based upon the protection of the consumer from unjust or exorbitant rates, and also upon allowing the utility a fair profit on its investment and operation of its plant. If margins of milk distributors are lowered in line with the more efficient group of distributors, less efficient dealers can allege confiscation and appeal to the due-process provision of the Constitution. This tends to limit the usefulness of governmental resale price control in obtaining increased efficiency.
4. State control of consumer prices tends to prevent the introduction of new inventions which have proven helpful in competitive areas in increasing per capita consumption of milk.
5. Sixteen of the twenty-six States once having State control of consumer prices have eliminated this type of control.

CONCENTRATED MILK: ACTUAL AND POTENTIAL SALES

The potential market for concentrated milk is wide. Like all new products, such as dry nonfat solids and a 2-percent milk with extra solids and vitamins, concentrated milk will have to win its spurs in a tough competitive field. However, the sale of concentrate is likely to bring about almost revolutionary changes in the milk industry that may be summarized as follows:

1. A decrease of 5 to 10 cents a quart in prices to consumers in most of the markets in the South and Northeast. Nearly three-fifths of the population of the United States live in these areas.
2. An increase of 15 to 20 percent in per capita milk sales on a national basis within the next decade.
3. A decline in milk production in high-cost areas, accompanied by an increase in milk production in the low-cost areas of the Midwest, South, and the Far West.
4. A sharp decrease in distribution costs and in class I prices in the high-cost areas.

Forward-looking dairy leaders can anticipate this new development and begin to get their business operations in order so that necessary adjustments can be made with the least hardship.

Skeptics of concentrated milk, of which there are many, may well weigh the statements of T. D. Lewis, of Arden Farms, in Los Angeles in his report as retiring president of the Milk Industry Foundation in October 1953. At that time he called on the organization to work for "improved merchandising of milk in restaurants, increasing sales through food stores," and to watch "developments in the fresh evaporated milk and dehydrated milk which will bring about a revolution in the milk industry."

Mr. ABERNETHY. Before we adjourn, I would like to say that I certainly am no expert in this industry, but I know an expert when I see one. If there is anyone in this world who is certainly an expert in this field, it is Dr. Barlett and I appreciate, Doctor, your writing us and asking for the privilege of testifying before the committee. You have brought some very valuable information here which I hope will be of value to dairymen throughout the country. Therefore, I certainly intend to have included in the record as much of this material as we possibly can.

You impress me as being a man who is absolutely unbiased and you have no ax to grind except you are trying to do a job. You have been very impressive this morning and I am certainly grateful to you.

Dr. BARTLETT. Thank you, Mr. Abernethy.

Mr. JOHNSON. I want to concur with what the chairman has said. I would hate, perhaps, to see some of his recommendations that he has suggested go through, but I appreciate the sincerity of his testimony and I enjoyed very much being here this morning and I wish to thank you, Doctor.

Dr. BARTLETT. Thank you very much.

Mr. ABERNETHY. Thank you very much, Doctor, and I hope you will come again, and soon.

(Whereupon, at 11:55 a. m. the committee adjourned.)

MILK

WEDNESDAY, MAY 15, 1957

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON DAIRY PRODUCTS
OF THE COMMITTEE ON AGRICULTURE,
Washington, D. C.

The subcommittee met, pursuant to call, at 10 a. m., in room 1308, New House Office Building, Hon. Thomas G. Abernethy (chairman of the subcommittee) presiding.

Mr. ABERNETHY. The subcommittee will please come to order. The subcommittee has met this morning for the purpose of hearing a statement from Mr. J. C. Gorman. Mr. Gorman has been communicating with me, as well as other members of the subcommittee, for some time, seeking this opportunity to testify. Therefore, a few weeks ago I selected this particular day for the purpose of hearing his statement. I asked that he duplicate his statement, which he has done, I have noted.

Mr. Gorman, we are glad to have you, and we shall be pleased to hear from you at this time.

STATEMENT OF J. C. GORMAN, MANSFIELD, OHIO

Mr. GORMAN. Thank you very much, Mr. Chairman. I will have to give the advertising manager of our little company the full credit for this brochure. He said, "We must present these facts in a very concise and decent manner."

I will just read the first paragraph and then, with your permission, I shall summarize a couple of pages of my statement.

Mr. ABERNETHY. Mr. Gorman, I think you might go through the entire statement. It is not too long.

Mr. GORMAN. It will take about 27 or 28 minutes.

Mr. ABERNETHY. That is perfectly all right.

Mr. GORMAN. Gentlemen, in asking your chairman for the privilege of appearing before this committee, my sole purpose is to offer a simple and effective program to eliminate the burdensome overproduction of milk, by a method that will be to the best interests of the taxpayers of our great country and, at the same time, will be of great benefit to the dairy farmers themselves. I assure you I have no ulterior motive, as I will not profit from my proposed program except as every other dairy farmer in the land will profit.

Mr. ABERNETHY. Mr. Gorman, I would like to interrupt you at this point and ask that you furnish to the committee information as to your background and experience.

Mr. GORMAN. Gentlemen, I happen to be the president of what is known as the Cedarbrook Farm, Inc., a dairy farm located in north central Ohio, where we have a herd of about 220 registered Guernseys. I will mention the acquisition of the farm later. We have had this dairy farm for about 11 years, and I have tried to apply to its operations, and I have applied to its operations, the same horsesense and business principles that must be applied to any corporation or otherwise to make it a success.

With your permission, sir, I shall proceed with my statement.

Mr. ABERNETHY. You may proceed.

Mr. GORMAN. In appearing before you, I do not pose as an expert in every detail of dairy farming but I do claim to be a practical businessman who, aided by a self-obtained engineering education, has diligently applied the necessary factors for success to four corporations in which I am deeply interested, all of which I helped to found. One was started with a capital investment of $1,200 and in 1955 reached a total sales volume of $6 million. Another started with a capital of $7,000 and did a business of $5 million in 1956. The third and newest one, started 6 years ago as just an idea, did $2 million worth of business in 1956. The fourth, Cedarbrook Farm, Inc., a dairy operation, was operated in the black during the last 6 years after an overhead charge as high as $15,000 a year.

Diverting for a moment, for example, my father's brother owned a small plantation in Virginia.

While I was not born and raised on a farm, I was frequently thrown in contact with farm life even before I was in my teens; I formed a love of the soil and of farm animals at this early age and vowed that someday I would own a farm. I divert here to say that most people who live in the city who go out to buy a farm do buy the land because it is cheap, with no thought of productivity.

Sixteen years ago my interest in farming culminated in the purchase of a bottom-land farm, after several visits to the department of agriculture of Ohio State University to seek their expert advice.

They urged me not to buy a farm just because the land was cheap, as most agriculturists do (an agriculturist is a man who has made a little money in the city and loses some of it in the country). They also informed me that to make money on a farm it is necessary to specialize instead of scratching around a little here and a little there. Upon their recommendation I decided to go into the raising of potatoes and also followed their recommendation of purchasing a level, valley farm of sandy loam topsoil underlain with gravel. And even that many years ago I asked them how much production would be increased per acre if I irrigated. Their reply was, "About 25 percent."

When I purchased this farm the old potato growers down in that valley asked, "What does that city dick know about growing potatoes?" I knew absolutely nothing but I sought out two very successful potato growers in southwestern Ohio, of whom I asked numerous questions and from whom I received the right answers—which I followed. To make a long story short, we were soon producing 500 bushels per acre instead of the average of 230 bushels for that valley. Obviously, we made money.

But, being a manufacturer, I recognized the necessity for having the crop sold each year before it was dug. This was easily accom-

plished by contracting with the Kroger Co., Columbus, who every year took the entire output of our high quality, graded, and bagged potatoes, delivered to their warehouse in an insulated van. The end result is we have made as high as $22,000 per year on this 300-acre potato farm, planting only 85 acres in potatoes. Among other things, we built a 40,000-bushel warehouse and mechanized it; and designed and built 3 single-row potato harvesters which took the potatoes out of the ground and dumped them into the mechanical unloading and handling system in the warehouse, thereby reducing from 55 to 16—12 of whom were women—the number of employees required to harvest and store the crop.

You see, gentlemen, we apply the same production methods that we use in a factory in order to eliminate labor.

Incidentally, there are at least a dozen very successful grassroot farmer potato growers in Ohio, who raise as many as 100,000 bushels of potatoes each year. All of these farms are profitable because they are also mechanized and efficiently operated.

You may wonder what purpose is served in bringing to your attention the success of grassroot potato farmers in Ohio. The reason is simply this: these men have succeeded and are making themselves comfortably wealthy because they have eagerly followed all improved methods in planting, cultivation, growing, harvesting, storing and merchandising their potatoes. Many potato growers have fallen by the wayside because of their lack of vision and management ability. All of these successful potato growers started from "scratch," without anyone to help them financially.

At the time I visited the authorities at the department of agriculture of the Ohio State University, asking for their advice in the purchase of a farm, they also recommended dairy farming as a specialty which could be made profitable.

Gentlemen, as you probably know, I could get into potato growing within 2 or 3 years, and do a job, but to develop a dairy farm of high-producing cows takes a decade of testing and culling, and getting rid of the poor producers and the poor types and that is the reason I started potato farming first.

So 11 years ago I started my quest for another bottom-land farm, with a stream flowing through it, to start a dairy herd.

You may say, "Why a stream flowing through it?" Because, gentlemen, with the water available—good, cold spring water for the dairy herd to drink, and also plenty of water for irrigation, we are able to get 4 cuttings per year of alfalfa; whereas, without it, 1½ cuttings is about all we can get in that area, and the difference is the difference between 4 and 4½ tons of alfalfa versus 9 to 9½ tons per acre.

Mr. ABERNETHY. I think that reasoning is obvious, Mr. Gorman.

Mr. GORMAN. After purchasing this farm, I immediately sought the counsel of Mr. George B. Ganyard, who was then county agent of Richland County and now is county agent of Franklin County, in which Columbus is located. On our drive back to Mansfield, after his second visit to the farm, I asked him: "Mr. Ganyard, what percentage of farmers visit your office to seek your advice and profit by the wonderful volume of information and data you have from the department of agriculture of Ohio State University and, also, from the Ohio Experiment Station at Wooster?" His reply, which I shall never for-

get, was: "Only about 10 percent—the other 90 percent think it is only for the city man who has money to experiment with on the farm."

Thus, we started the dairy farm under the expert advice available to all dairy farmers.

My interest in the "test and cull" program, about which I have written you several times, supported by facts, was awakened by reading a bulletin, received in September 1954 from the present Richland County agricultural agent, Mr. C. N. McGrew, entitled "The Dollars and Sense (Cents) of Testing and Culling."

I have reprinted that entire bulletin as follows:

THE DOLLARS AND SENSE OF TESTING AND CULLING

In the Richland County Dairy Improvement Program Report, May 1954, there was on a yellow sheet an article by Prof. Guy W. Miller entitled "Facts About United States Dairy Situation." In the third paragraph of this article Mr. Miller stated that the average production per cow in Ohio in 1953 was 5,447 pounds of milk.

In the Ohio DHIA report of July 1954, there is an article entitled "Cow Culling Yardsticks," advocating and urging the "culling of more low producing cows" as one means of eliminating the milk surplus that gives you so little for your milk. Under paragragh 1 of this article it states: "About 6,000 pounds of milk and 250 pounds of fat are considered as a profit or loss breaking point in most commercial herds."

How many of your cows are producing 6,000 pounds of milk and 250 pounds of fat?

According to records available at the Ohio State University, Department of Agriculture Extension, only about 7 percent of the dairymen of Ohio can answer that question accurately. The other 93 percent just don't know because they do not have their cows on test and do not definitely know what each one has produced each year.

Since dairy farming is definitely big business, it can't be run on a "by guess and by gosh" method.

How long could a boardinghouse keeper feed her boarders if they did not pay for the food they ate and the labor required to prepare it? Silly question, isn't it? But that's just what is happening on 93 percent of the dairy farms that do not have their cows under test. There are many boarders "that are eating the boardinghouse keeper (the farmer) out of house and home—and he doesn't know it."

Just stop and think a minute. If the average production per cow in Ohio in 1953 was only 5,447 pounds of milk, and if a cow must produce 6,000 pounds to pay her board and keep, how many cows are then on the farms milking even less than 5,447 pounds, to bring the average production down to that figure? It is a safe bet that many of the cows in the herds or on the farms of the 93 percent that don't test produce way under 6,000 pounds, the break-even point.

Your first reaction is, "I can't afford to have my cows tested." Let's look at that a moment. If more than half of your herd are boarders, it is costing you considerably more than the small amount of the test cost to pay for the testing of the average herd.

Let's take a look at some actual figures to prove to you that culling does pay. I know of one farm with every cow under H. I. R. test. Recently four cows that were not up to their standard of 8,000 pounds per cow at the end of 2 lactations were sent to the butcher. These 4 cows netted the farmer $410. This money was invested in 1 good cow, which cost him $390. She has a record of 11,000 pounds of milk and 495 pounds of butterfat. This cow, in the herd where she was, actually produced better than 50 pounds of milk per day in the 3 months prior to the purchase transaction. This cow was milked twice per day, under ordinary farm conditions, and was fed good grass silage and good alfalfa and brome grass hay, which every good farmer can produce.

When this farm sent to the butcher the 4 cows not producing up to their standard, they had 4 less cows to feed, milk and care for, which they figure had been costing them $75 or more each per year, or a total of $300 for the 4 cows. They replaced these cows with 1 cow that is producing at the rate of 11,000 pounds per year, 10 months, twice-per-day milking, on which they figure they are making

a minimum of $200. So they're actually $500 better off since they are saving $300 on the 4 cows that were sent to the butcher and are making $200 on the good cow they bought with the money they received from the 4 cows that went to the butcher.

If every dairy farmer would put his cows on test and send the boarders to the butcher, the surplus milk situation would be quickly changed. For example, the farm I mentioned above sent 4 cows (culls) to the butcher that had been producing 24,000 pounds of milk per year. They replaced the 4 culls with 1 cow producing 11,000 pounds annually. Thus, they took 13,000 pounds, the difference, off the market.

If every dairy farmer would send his boarders to the butcher, the surplus milk, that is holding down the price you are getting for your milk, would disappear quickly; then you, the dairy farmer, would get a better price for the milk from your good producing cows.

The 93 percent of the dairy farmers who do not have their herds on test can clear up the surplus milk situation by putting their cows on test to find out which ones are the boarders, and send them to the butcher. The matter is in the hands of the dairy farmers themselves. Will they decide to be good businessmen and get a fair price for their products or continue as before to run an unprofitable boardinghouse?

Testing costs are most reasonable. For detailed information, contact your county agent.

With the cost low, it isn't a question that a dairy farmer can't afford to have his cows on test; it is just the reverse—he can't afford not to have them on test. If in a 15-cow herd there is just one boarder, she is costing him the test fee and more. But, as I stated above, since the average milk production per cow in 1953 was only 5,447 pounds, and since the breakeven point is 6,000 pounds per cow, I again emphasize that there are as many cows producing under 5,447 pounds as there are over that figure. So I repeat that in many herds at least half, and sometimes more, of the cows are boarders and should go to the butcher.

I urge you to read the USDA article, Cull the Cow That Culls Your Profits, which appears later in my statement. That was put out by the United States Department of Agriculture back in 1954.

After reading it, if you are among the few who have cows on test, then by all means send the boarders to the butcher. But if your cows are not on test, I urge you to make arrangements for a testing program.

Just one more suggestion. Good registered cows of all breeds are now selling at the lowest prices in the last 25 years. As evidence, I refer you to the statement above where 1 farm purchased an 11,000 pound cow for $390. It is true that many grade cows will milk as much as a good registered cow, but, by and large, the registered cows have more complete records behind them. Therefore, if you will watch for dispersal sales, especially where the owner is retiring because of age, you may be able to buy a good cow, with a good record, at a bargain price that will help you to improve your production and the type in your herd.

Don't let the recent increase in the price of milk stop you from putting your cows on test and then, from their production records, culling rigidly.

I talked to Mr. McGrew the other day, and in fact, after he had sent this bulletin out in September 1954, I talked to him 6 months later, and I said "Chester, how many new dairy farmers have signed up?" He said, "Not a single one."

There were 350 dairy herds approximately there in that county.

After reading Mr. McGrew's bulletin it occurred to me therein was the answer to the dairy surplus problem that was costing the taxpayers of the country millions each year. Why shouldn't every dairy farmer have his cows under test and cull from his herd any cow that hasn't made at least 6,000 pounds of milk at the end of 2 lactations, or 2

years? Mr. McGrew stated he had asked many dairy farmers why they were not testing cows, and those who were not testing answered either "I can't afford it" or "I know what each cow is producing."

To divert just a second, 2 years ago at a sale we sold a beautiful heifer. It broke my heart to see her leave the herd, but we had to do it to help the industry along. The man who bought her was a fellow who lived down near Fredericktown, and I said to him: "I hope you put her under test." He said, "I do not have to test; I know what each cow can produce."

As Mr. McGrew states, when the dairy farmer is operating without testing or on the "by guess and by gosh" method, he just doesn't know accurately which cows are "boarders" and which are not. This is plainly shown by the fact that in 1953 the average production per cow in Ohio was only 5,447 pounds, and in 1955 the average production per cow for the United States was only 5,815 pounds, which is still under the break-even point of 6,000 pounds. So it is obvious there are more "boarders" on the farms today, not paying their way, than there are cows that are paying their way and making the farmer a profit.

To my letter to you of March 7, 1957, entitled "Here Is How to Save $1,317 million and Cut Taxes That Much," I attached two tables prepared by Dr. E. E. Heiser, head of the dairy science department of the University of Wisconsin, showing conclusively that low producers or cow "boarders" are causing the dairy farm surplus milk headache. Herewith are copies of Dr. Heiser's tables.

Well, gentlemen, I find that instead of attaching the table which I made, they have put it in better form, and it is more legible than what I had.

Mr. ABERNETHY. It is attached as an exhibit to your statement following page 15 thereof?

Mr. GORMAN. Yes, sir.

The first table shows that a 5,000-pound cow returns a labor income of only $9 per year; a 7,000-pound cow, a labor return of $55; and a 9,000-pound cow returns $97.

The second table shows that for a $3,000 annual labor income it is necessary for the farmer to milk three hundred thirty-three 5,000-pound cows, fifty-four 7,000-pound cows, and only thirty-one 9,000-pound cows. And in the second table you will note the total milk produced by three hundred thirty-three 5,000-pound cows is 1,665,000 pounds annually; but if the farmer sent these 333 cows to the butcher and replaced them with fifty-four 7,000-pound cows, to get the same labor return of $3,000, he would produce 1,287,000 pounds less milk.

From these figures you will readily understand it is the cow "boarders" which are eating the dairy farmer out of house and home and causing the milk surplus for which the taxpayers have been taxed $1,317 million during the 6 fiscal years ending June 30, 1955.

All of the county agricultural agents throughout the land, as well as the department of agriculture of each State University, plus the United States Department of Agriculture—as per the latter's bulletin, "Cull the Cow That Culls Your Profits"—have been imploring and beseeching for years the dairy farmers to "test and cull," without avail. This is evident because even today more than 90 percent of the cows on dairy farms are not under test.

To correct this costly tax situation and, at the same time, to improve the efficiency and, therefore, the income of the dairy farmers, I pro-

pose a voluntary incentive test-and-cull program, just as the farm soil-bank program is voluntary.

I urge that, instead of the Government's buying up the surplus dairy products—mostly milk—100 percent parity payments be made, through their processors, to those farmers who will voluntarily sign up to test and cull. When he signs up, the dairy farmer agrees to send to the butcher any cow that has not made at least 6,000 pounds of milk at the end of her second lactation, or at the end of 2 years, unless she has been sick as certified by a veterinary.

As a further incentive, I suggest that for every cow sent to the butcher the farmer be paid $10. Such certification for animals sent to the butcher could be handled through the county agent. Actually, this extra payment should not be necessary, as the farmer should be glad to get off his hands a "boarder" that is costing him money every day she eats his feed and requires his labor.

As an additional incentive, to induce the farmers to "test and cull" which the vast majority have steadfastly refused to do, I suggest the USDA pay one-half the testing cost and the farmer one-half during the 2-year period. Thereafter, the special payments of $10 for butchering the culls and sharing one-half of the testing fees should be discontinued.

I predict that at the end of 2 years the milk surplus will have entirely disappeared and the law of supply and demand will regulate prices, as it should in every business or industry. Then the Government will be relieved of buying and storing dairy products to the tune of about $220 billion per year.

And do not overlook the fact that those farmers who sign up for the test-and-cull program will gradually find, as production per cow increases, their profits have increased, by milking fewer cows. With my letter of October 10, 1955, I enclosed a copy of the monthly bulletin issued by Ohio State University, cooperating with the United States Department of Agriculture, Agricultural Extension Service. On page 5 of this bulletin was an article entitled "Proof That Culling Pays." This told of a Hardin County (Ohio) farmer who, in 5 years, increased his annual profits by $4,497.65—from $6,789.90 to $11,287.55, with 13.5 less cow years.

You may now, naturally, ask the question: what will this program cost the Government? That cannot be predicted accurately because it all depends upon how the program is set up. For example, if it is definitely announced the program will go into effect a year from a given date—after which date there will be no purchasing of surplus dairy products, so prices will seek a level, depending upon the law of supply and demand—then the cost to the Government will be slight; that is, considerably less than the average of $220 million per year spent during the 6 fiscal years ending June 30, 1955.

The actual cost after the program is started would then depend upon how many dairy cows were signed up by the dairy farmers. If it runs about the same percentage as the number of acres signed up in the soil-bank program, it would be only 8.45 percent. This is based on 28 million acres in the soil bank, out of 332,800,000 acres harvested in 1955. But if the percentage is based on the total crop acres of 459 million, the percentage of acres signed up in the soil-bank program is only 6.2 percent.

Now, gentlemen, I am using the percentage there of the number of acres in the soil bank that were signed up versus the number of crop acres.

I think that is more reasonable than using the number of acres harvested in 1955.

Our county agricultural agent, Mr. C. N. McGrew, has furnished me with the following figures which he, no doubt, obtained from the Ohio State University:

Milk produced in United States in 1955----------pounds--	123, 454, 000, 000
Number of cows on United States farms, 1955----------	21, 332, 000
Average production per cow, United States, 1955------pounds--	5, 815

If the same percentage of cows is signed up under the test and cull program as acres were signed up under the soil-bank program, it would mean 1,316,384 cows would be placed under test. Since the average production per cow in 1955 was only 5,815 pounds, whereas 6,000 pounds is the break-even point, it follows that slightly more than half of the cows placed under test would eventually go to the butcher.

Incidentally, gentlemen, that 6,000-pound break-even point was established in 1954. In the meantime, the farmer's costs have gone up for machinery, parts, and everything, and that figure should be higher, but I am still keeping it there in order to be on the conservative side.

If we assume that only half of the cows would go to the butcher, the number would be 658,192. At a cost of $10 per cow, to the Government, this would mean the culling program would cost $6,581,920 by the end of 2 years.

Now, let's look at the annual milk production of 123,454 million pounds. It is my understanding that the surplus amounts to about 5 percent of this figure, or 6,172,700,000 pounds. Assuming 658,192 cows will go to the butcher, this will means 3,290,960,000 pounds of surplus milk would be removed or slightly more than 50 percent.

Mr. ANDRESEN. Will you pardon me, sir?

Mr. GORMAN. Yes, sir.

Mr. ANDRESEN. What year was that 123-billion-pound figure established? It is estimated now at around 129 billion.

Mr. GORMAN. I got these figures from the county agent, and he got them from Ohio State University.

Mr. ANDRESEN. We get them from the Department of Agriculture.

Mr. GORMAN. Yes, sir, but, gentlemen, of course, I do not have access to all the figures that you have, and I can only rely upon the Ohio State University out there, but that is where they got them. However, that even makes the problem worse if the surplus is more.

Mr. ANDRESEN. Which, in my opinion, is largely due to a part of the program that you have advocated, plus artificial insemination and the feeding of more high-protein feed.

Mr. GORMAN. You mean the increase in production?

Mr. ANDRESEN. Yes.

Mr. GORMAN. We will get back to that later, if you want to ask some questions of me.

But, should the dairy farmers come to their senses and sign up 12.4 percent of their cows for the test and cull program, 1,316,384 cows will go to the butcher by the end of 2 years. Should this happen it means 6,581,920,000 pounds of milk will have been removed from the market, which is slightly more than the present estimated surplus of 6,172,700,-

000 pounds of milk. Then the law of supply and demand will take over and prices will be adjusted accordingly.

On the basis of 12.4 percent of cows being signed up for the test and cull program, it is estimated a total of 1,316,384 cows will go to the butcher, at a cost of $10 per cow—or a total cost to the Government of $13,163,840 for the culling part of the program.

In Ohio the D. H. I. A. testing cost is $7 per 10 cows per month, or $84 per year—or $8.40 per cow per year—with the Government to pay one-half, or $4.20 per cow. If on the 6.2 percent basis 1,316,384 cows are signed up, the cost for testing, to the Government, at $4.20 per cow, would be $5,528,812. If the number of cows signed up is doubled, to 12.4 percent, then the cost to the Government would be doubled, or $11,057,625.

Thus, the direct costs of the testing and culling program may reach $24,221,465—say, $25 million.

Now, the next question is: What would be the cost of increasing parity payments to 100 percent? In arriving at this figure, I will assume that 12.4 percent of the cows will be signed up. Assuming these cows will milk an average of 6,000 pounds, which is the break-even point—whereas the average production was only 5,815 pounds—these 2,632,768 cows would produce 15,796,608,000 pounds of milk The increase to 100 percent parity would be a maximum of $0.70 per 100 pounds, so the total outlay would be $107,576,256. Add this figure to the $24,221,465—the cost of the Government's proposed share of testing and culling—and the total cost would be $131,798,000. This, of course, is way under the average cost of the present and past ineffective dairy price support programs, since they have been averaging about $220 million per year.

Another question that may occur to you is: What may be the impact on the price of beef in sending these cow "boarders" to the butcher? In talking just yesterday to the manager of the local Kearns Packing Co., Mr. Bean, he assured me these butcher cows go into bologna and frankfurters, the rounds into hamburger, etc. He felt quite confident the price of beef from good beef cattle would not be affected.

I predict all of the big dairy corporations will fight the adoption of such a test and cull program as I have proposed above. The reason for this is that they are now buying the surpluses at far below the cost of production, which places them in position to make tremendous profits out of the present price support program. The way the prices of their stocks have doubled and quadrupled, with 2-for-1 and 4-for-1 splits, is evidence of their prosperity.

Have you ever noticed their advertisements on television, wherein they tell the housewife that by buying powdered milk and mixing it with water she can have good skim milk, for drinking or cooking, at $0.09 per quart? The dairies that bottle and deliver the farmers' milk simply cannot compete with such prices.

Another good question is what effect there will be on the prices of corn and oats when large numbers of dairy cattle are sent to the butcher. I predict there will be very little, if any, effect because most dairy farms, like Cedarbrook, raise their own corn and oats.

We just cannot afford to go out and buy all that material because it cuts into our profits.

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Thank you, gentlemen, for giving me the time to present to you my program, supported by facts. I hope it will have due consideration since it will definitely improve the position of the dairy farmer by increasing his profits and, also, relieve the taxpayers through a substantial reduction in a $220 million annual burden. I thank you.

Well, gentlemen, that is the program that I suggest, and I thank you for giving me your time.

Mr. JOHNSON. Could I ask you a question there?

Mr. GORMAN. Yes, sir, but I want to revert for just a minute to this chart here in the back by Dr. Heiser of the University of Wisconsin. There are the facts there. It was astounding to me. I had never realized that there were such figures.

These figures were delivered a year ago last March before the annual meeting of the High Guernsey Breeders' Association. Did it ever occur to you gentlemen, for example, that it would take 333 5,000-pound cows to return the same income of $3,000, which is certainly terrifically low for a farmer, as 31 9,000-pound cows would, and it would remove that much milk from the market?

There is a letter in here from the Kearns Packing Co., but I want to skip that because that is self-explanatory. I would like to have you look down here just a moment at some of the things that are in the Cull, the Cow That Culls Your Profits. This was put out, as it shows here, in June 1954, by the United States Department of Agriculture, and very clearly emphasizes the fact that the farmer is holding onto "boarders" and that is what is causing this tremendous milk surplus that is beating down the price and that is making these big dairy corporations richer, and the dairy farmer poorer.

Thank you, gentlemen. I am sorry to have taken so much time, but I hope I have given you some thoughts to think about.

Perhaps, my whole program here is not exactly what it should be, but I think it is the basis on which something can be worked out.

Mr. ABERNETHY. Thank you, Mr. Gorman. You have been seeking this opportunity for a long time, and I am sure the members of the subcommittee are glad to hear you. We are interested in your statement.

As I have told you on several occasions in replying to you, I would not be the appropriate person to initiate a program for dairying. I think I made my position clear to you, and I think I also pointed out in my communications that this is something which has to be sold to the dairy people before it will be initiated by this Congress. I do not know what the attitude of the Department of Agriculture is on the matter and I do not know whether you have counseled with them about it or not.

Mr. GORMAN. Yes, sir; I have written down there, and I have never had the courtesy of a reply. But, I intend to follow it up through another channel.

Mr. ABERNETHY. Well, I imagine they get an awful lot of mail.

Mr. GORMAN. Yes, sir; they do.

Mr. ABERNETHY. Also, it is obvious they do not come up for reelection as often as we do.

Mr. GORMAN. No, sir.

Mr. ABERNETHY. I imagine you have had a reply from most of the members of the committee, anyway.

Mr. GORMAN. Yes, sir; I have. In both the House and the Senate the committee members have been very courteous in acknowledging these letters. All I hope is that they have read them, and the suggestions I have submitted. I hope, certainly, during this summer recess that you would at least take the time to talk to your State agricultural department and to your State agricultural extension agent, and talk to anyone who knows anything about the farming industry and the dairy industry in regard to this matter.

Mr. ABERNETHY. Do you know what percentage of the farmers in your own section are participating in this sort of a program on their own initiative?

Mr. GORMAN. Just about the figure which I list here, and incidentally, that happens to be just about nationwide.

Mr. ABERNETHY. Suppose they all sent, as you illustrated in the early part of your statement, 2 of these low-producing cows who were the boarding type to the butcher, and replaced them with 1 good cow? Where will they get the good cow?

Mr. GORMAN. They are available from the good, progressive dairy farmers who have excess stock to sell. For example, in our own case we milk 85 cows a day and we have to maintain 120 cows. We are milking on a 10-month program, or 305 days, and we have to maintain 120 cows.

That means we have 120 blessed events a year, and let us say that half of those are bulls which we immediately send to the butcher. We will also cull out quite a number of the females that are produced, but it will mean we have now, starting this fall, between 35 and 40 good females to sell a year.

We will never sell a heifer or a cow to a farmer unless we feel that she will do that farmer some good. So, we will have 35 to 40 just in our one little herd to sell for replacement purposes.

They will be good replacements, and that is true in any good, Holstein breed. It is fortunate that there are about 10 percent of the dairy farmers who are real, honest-to-goodness progressive dairy farmers who are making money. These Holsteins do not stop at 8,000 or 9,000 pounds average. Many of them have a 12,000 to 13,000 pound average. I know of a Guernsey herd run by a woman, Mrs. Helen Highland, up in New York State. She had a little over a 12,000-pound average last year on 52 cows. It shows it can be done.

She is not a wealthy woman. She inherited a little money but she does not have a huge, fancy setup. Her old buildings, I understand, are ready to fall down, but we hear they raise the finest kind of feed and forage on the farm, and that the cows get plenty of feed. That, of course, is a tremendous factor in production which I have personally found.

Mr. ABERNETHY. Are there any questions, gentlemen?

Mr. JOHNSON. Mr. Chairman, I have a question.

Mr. ABERNETHY. You may proceed.

Mr. JOHNSON. I have been connected with dairy farming most of my life, until I came to Congress.

Mr. GORMAN. I beg your pardon, sir, but what is your name?

Mr. JOHNSON. My name is Lester Johnson, and I am from Wisconsin.

Mr. GORMAN. Yes, sir; you are from a great dairy State.

Mr. ABERNETHY. I think Mr. Gorman should be advised that Mr. Williams is from New York, and from a heavy dairying section; Mr. Andresen, whom you undoubtedly know, is from Minnesota, Mr. Tewes is from Wisconsin, Mr. Johnson is from Wisconsin, and Mr. Krueger is from North Dakota.

Mr. GORMAN. Thank you, Mr. Chairman.

Mr. JOHNSON. My first experience with my father's herd was that we did testing all through the years, and practiced these principles that you are practicing, and I practiced it in my own herd. I am not trying to criticize your program, but how many cows would Cedarbrook have to get rid of under this program if you went into it?

Mr. GORMAN. We always have about 20 percent that we produce which go to the butcher every year.

Mr. JOHNSON. I mean how many do you have which produce under 6,000 pounds of milk in your herd?

Mr. GORMAN. We have practically none.

Mr. JOHNSON. That is the point I wanted to bring out.

Mr. GORMAN. But, wait a minute——

Mr. JOHNSON. Let me go a point further, and develop it:

That is where the trouble of trying to put the program into effect, I am afraid, is going to run into a snag. There will be farmers who would go into this program, but the run-of-the-mill farmer—probably some of them—would have every cow in their herd that would go under 6,000 pounds, and it would mean getting rid of the whole herd. That is where the bucking would start in trying to get this universally accepted. I would require an educational program, I am afraid.

Mr. GORMAN. Quite so.

Mr. JOHNSON. It is going to be hard to sell to the rank and file of the dairymen. I think it is a good program. It would be a good thing for every farmer to go into it, although it would be hard on the man who had to sell off most of his herd because when he went to rebuy or to repay you who have the cows, you would not be selling them to him at the market price today. In other words, the market price then would be higher.

Mr. GORMAN. Yes, sir.

Mr. JOHNSON. I do not know whether it was the National Milk Producers' Association or not, but I know that the manager of the Wisconsin group came to Congress in 1954 with this same idea and talked to the Wisconsin delegation in regard to it. I just do not know how you are going to sell the farmers on it. That is the point which is bothering me.

Mr. GORMAN. I think the farmer will be sold when he gets some financial help on his testing and culling.

Mr. JOHNSON. The Department of Agriculture has been trying to do this for years in Wisconsin. We have been advocating testing and we have it now.

We do not have to have a tester to stay at the home and make the tests morning and evening. The farmer takes his sample and it is much cheaper. I do not believe a very big percentage of our farmers are doing the testing. A lot of the boys are getting training in testing in their agricultural classes in high school. They are learning how to test, and they bring the samples in. There is a lot of educational work going on, but it has not received the acceptance which it should.

It should be 100 percent. Every dairy farmer who has a herd of five cattle or more should have that herd tested. I realize that. I do not know how they can exist by keeping these boarders, but they do.

Mr. GORMAN. They are just existing. They are getting 35 or 40 cents an hour for their labor.

Getting back to our case, I did not answer you factually correctly. I was down to the farm just last Saturday consulting with our manager. The cows were all in the barnyard waiting to go through the milking parlor, and I pointed out a very poor type that had small udders, and I said to our manager, "Should not those go to the butcher?" He said, "Yes; they are scheduled to go."

Of this great amount of 65 heifers which will come onto our farm every year, we will finally have only 35 or 40 available for sale, because the rest of them will be culled out.

Mr. JOHNSON. You probably would not cull out a cow because you probably have a higher standard. Probably, an animal would have to produce over 8,000 pounds before you would keep it?

Mr. GORMAN. Any cow that does not produce 8,000 pounds at the end of 2 years, unless she has been sick, goes to the butcher.

I was down at Greer College the other day, and the manager down there told me that on a cow you have to use a little judgment. You cannot do it indiscriminantly because the cow hasn't produced if she has a good, solid foundation back of her. Maybe, in two lactations she has not made a good cow, but the third lactation she may make a good one, and that is exactly what happened down at Greer College. They have one Guernsey that is going to make over 7,000 pounds of fat during the year.

Mr. JOHNSON. Another thing that enters into it is the way the cow is housed and the way she is fed and cared for. You can take one of your 12,000-pound cows and have the wrong kind of man to take care of her, and she probably will not produce 6,000 pounds.

Mr. GORMAN. I want to say this in corroboration of what you say: Our first manager on that farm was just an ordinary, dirt farmer. Our present manager and his assistant are both graduates of the Ohio State Department of Agriculture and specialized in dairy science.

In order to give you an idea as to how some of these old farmers work, I went down the other day and I heard that this one farmer was seeding a field of alfalfa. I heard that he ran out of alfalfa. He told the man who was doing the planting to just cut the seed in half as to the amount which should have been used per acre. That is the kind of practice that you have. I also know that a great many farmers will not reseed their pastures, and meadows, sufficiently to raise the best forage, and you have those things to take into consideration.

However, if a farmer is going to farm that way and you cannot change him, I do not see why if he is producing only 6,000-pound cows or boarders he should stay on the farm.

Do not forget, gentlemen, that this thing is entirely voluntary just the same as the soil-bank program. Let me ask you why is it that only 28 million acres out of all these acres were signed up? What is the matter with all those farmers? I think that probably the reasoning behind it is the farmer is looking at it in a different manner.

Mr. JOHNSON. He probably says "I will make more money by putting in my crop." So, he did not sign up.

Mr. GORMAN. For instance, we do not need it on our farm, and there are hundreds of good dairy farmers who will never need any of this support. On the other hand, there are millions who just will not do anything unless they are helped, and the reason they have not been testing and culling is because of lack of incentive. Another reason is that they say they cannot afford to test and cull and pay the cost. I think when you reduce the cost to $4.20 a cow, a lot of them will feel "I am going to get something for nothing," and will come in.

Mr. ANDRESEN. Mr. Gorman, I have studied your program through the letters which you have sent me.

Mr. GORMAN. Yes, sir.

Mr. ANDRESEN. Your program has a great deal of merit to it.

This committee several years ago initiated a program which is the law today for the elimination of brucellosis diseased cattle.

Mr. GORMAN. That was a splendid step.

Mr. ANDRESEN. A very substantial incentive was paid to encourage farmers to come into that program.

Mr. GORMAN. Yes, sir.

Mr. ANDRESEN. That program is in line with your idea of taking out diseased cattle which are still milkers.

Mr. GORMAN. But, their production is cut in half.

Mr. ANDRESEN. The dairy farmers from Ohio are participating in this brucellosis eradication program?

Mr. GORMAN. They are, sir.

Mr. ANDRESEN. That was one step in the direction that you have recommended here. It is difficult for me to understand how you can make the work on a voluntary basis, knowing something about human nature—not only dairy farmers but others—but if the incentive is large enough like we made it for the eradication of brucellosis cattle up to $50 a head, we find a greater desire to participate. I do not know how you are going to get them to do it on the $4.50 a head.

Mr. JOHNSON. Is that what you are proposing?

Mr. GORMAN. $4.20 a head. The cost under DHIA is $80 a year, $40 a month, which figures out at $8.20 per cow per year. I suggested that the Government pay half of that.

Mr. JOHNSON. Would you say that you were going to pay them for anything when they butcher the cow?

Mr. GORMAN. That was the cull-and-sell test.

I also suggested that they pay $10 for every cow they sent to the butcher, in addition to what the man receives. Undoubtedly, if we get too many of them going at one time, although the question is how many will sign up, the price may go down a little on the butchered cows. That is the reason I suggested $10. You can see that the cost to the Government, even if we get 12.4 percent of the cows signed up, as I said here, it would only amount to a total of $25 million a year. If it is a question of incentive, as Mr. Andresen said, let us pay all of the cost of the testing.

Mr. ANDRESEN. Let me pursue this program a little further. I believe it has merit to it, but I think it is largely a matter of education.

Mr. GORMAN. I will agree with you and I will tell you some plans I have for that later.

Mr. ANDRESEN. Rather than legislate, and if you have observed your man along in years, like some of the rest of us, you have observed, as I have, a change in the type of young man who is taking over, not only the dairy industry but the farming situation in general.

Mr. GORMAN. All farming.

Mr. ANDRESEN. A good many of these young men and women have been attending agricultural colleges. They are posted on more modern techniques and methods and I think that has been demonstrated now because your figures on production at the present time—you have not given the figures for 1956——

Mr. GORMAN. Not available yet.

Mr. ANDRESEN. The estimate is that we will have close to 130 billion pounds this year on a reduced number of cattle.

Mr. GORMAN. That is right. It is going up all the time, very slowly, but surely.

Mr. ANDRESEN. It is going up. It is going too fast to suit me.

Mr. GORMAN. Not if they send boarders to the butchers.

Mr. ANDRESEN. No, but it would go up faster because then you people who are commercially in the dairy business would probably raise more high-grade, high-producing heifers that you could sell to the others and they would all get into the business.

Mr. GORMAN. I cannot agree with you on that, but go ahead.

Mr. ANDRESEN. It is my observation that our increased production during the past few years has been largely due to doing away with some of these boarder cattle, No. 1; No. 2, doing away with some of the diseased cattle; No. 3, and primarily so, artificial insemination with higher blood strains and then the feeding of more high protein feeds to secure production.

Mr. GORMAN. Right.

Mr. ANDRESEN. That is something we cannot legislate on.

Mr. GORMAN. No, definitely not.

Mr. ANDRESEN. I thought we would have our dairy problems solved by 1958 with the increase in population and the fine advertising that is being done over the country to use more dairy products.

Mr. GORMAN. By the ADA.

Mr. ANDRESEN. Not only by the ADA but in different States, local companies. You advertise yourself?

Mr. GORMAN. Yes.

Mr. ANDRESEN. Milk production and dairy consumption has been increased in this country. So, I think——

Mr. GORMAN. Per capita, yes.

Mr. ANDRESEN. What?

Mr. GORMAN. Excuse me. Down per capita, but down on account of the population. Go ahead.

Mr. ANDRESEN. Some make different claims, just what to believe and not to believe, I do not know. As I see it, and I have studied your program, it is largely a matter of educating the farmers to go into the program. Out in my country, Minnesota, we do have a large number of these testing associations, and the members of those associations are profiting by the very thing that you are advocating here and more and more farmers are coming into the association. New associations are being organized, testing associations are being organized, and eventually I think we will be on the track which you recommend, but

I do not think we can do it by legislation unless your incentive is so tremendous that you will get the farmers into it on a voluntary program. I do not believe in a compulsory program.

Mr. GORMAN. I do not either.

Mr. KRUEGER. Mr. Andresen, did the Government participate in the culling?

Mr. ANDRESEN. They do.

Mr. KRUEGER. I mean insofar as the culling business is concerned?

Mr. ANDRESEN. I do not think they do.

Mr. GORMAN. Not at the present time.

Mr. JOHNSON. Is it not your opinion that you have to pay $25 and $50 a head to get farmers into it?

Mr. ANDRESEN. I do not know. We had some trouble with the brucellosis program although they are paying double what they used to pay, up as high as $50 a head for the kind of cattle that you will produce and you have the high fat producing cattle on your place.

Mr. WILLIAMS. That is all purebred, $50?

Mr. ANDRESEN. $25 for undergrade. It is up to that. I imagine that your Guernsey cattle produce 5 percent butterfat.

Mr. GORMAN. Four point eight in the summer and 5.2 in the winter.

Mr. ANDRESEN. Most of the cows in this country are Holstein cattle and produce 3.5 and some of them go higher when they keep out the better cow.

Mr. GORMAN. Yes.

Mr. ANDRESEN. I would have to do a lot of thinking in connection with any program that I would advocate to solve the dairy problem, because if we get only 7,000 producers we would increase our production of milk in this country.

Mr. GORMAN. The incentive that I put up here only totals $25 million.

Mr. ANDRESEN. I do not think it would do the business.

Mr. GORMAN. I say it may be too low. You men know more about that than I do, what can be afforded, but let us double it, if necessary. Let us pay all of the testing, if necessary. That would only add about $11 million to the cost and that has been the big stumbling block, not the matter of sending the cows to the butcher. They think they cannot afford it.

Mr. ANDRESEN. You cannot blame thm.

That is all, Mr. Chairman.

Mr. WILLIAMS. Mr. Gorman, in your exhibit here, you place the breaking point at 6,000 pounds and I would like to know, does that mean on 3.5 milk?

Mr. GORMAN. Yes, 3.5 milk.

Mr. WILLIAMS. Your experience with Guernseys is not the 3.5 but the 6,000? Is that right?

Mr. GORMAN. Six what?

Mr. WILLIAMS. Six thousand.

Mr. GORMAN. Our program is 8,000.

Mr. WILLIAMS. I know, but you recommend here sending to the butcher all cows that do not produce 6,000 pounds. Would that mean 3.5 milk? I have worked with cattle most of my life and my problem has not been the 6,000. That was easy with Holstein.

Mr. GORMAN. Very true.

Mr. WILLIAMS. This 3.5 has not always been easy, with all breeds of cattle and you would have to give consideration to lactation periods. A cow does not reach her maximum production until a third or fourth lactation period. You keep all cows until their fourth lactation, unless they do indicate an impossibility of reaching this in the first or second period.

Mr. GORMAN. That, gentlemen, is all right as long as you want to run this for 2 years, which I recommended, but now once in a while you will send a cow, or a cow will have to go to the butcher that probably should have been kept, but that is very remote. Mr. Mohner, at Brayer College, indicated that it was the first time in his experience that a breed of cow came through at the end of the third lactation. The end of the second lactation is a very good indication of what she is going to do. However, you could make that for 3 years and the big thing is to get these cows under test, and send the borderline cases to the butcher. Let us double that, pay all of the testing bill, if necessary, for signing up voluntarily.

Mr. WILLIAMS. You used $8.40 for the average testing fee per cow?

Mr. GORMAN. Per year.

Mr. WILLIAMS. Would that apply to a 50-cow dairy?

Mr. GORMAN. It would be a little less, as the herd gets larger. This is for only a 10-cow herd.

Mr. WILLIAMS. We do not have many 10-cow herds up in New York State.

Mr. GORMAN. The expense to the Government would be less.

Mr. WILLIAMS. But we do have, I think, the average there would run between 25 and 50.

Mr. GORMAN. Yes; the herds are getting larger and the number of herds is getting fewer.

Mr. WILLIAMS. I appreciate that many farmers who have a 50-dairy herd would think quite seriously about paying $4,000 a year to test them.

Mr. GORMAN. $4,000?

Mr. WILLIAMS. $8.40 a head.

Mr. GORMAN. That would not be $4,000; that would be $400. Eight times $50 would be $400.

Mr. WILLIAMS. That is right. That is quite a lot of money and most of our dairymen, just as Mr. Andresen said, we have a great many cow-testing associations up there working and we do an awful lot of artificial breeding there, as you know. That has been expanded very greatly in New York State.

Mr. GORMAN. Yes; the artificial breeders have helped. We use it. We have 4 bulls of our own, top breed in the country at Bull Wash, 90 miles north of Washington, and 2 from Flying Horse Farm. We also used the project bulls that we have at Tiffin, Ohio, of the Central Ohio Breeding Association, because we want to help the farmers to get better bulls there to increase their production. We use the artificial breeding also because they have got some very good bulls up there.

Gentlemen, I still say that we can wait and go on 15 or 20 years until these fellows and better boys come out of the agricultural colleges and come on to the farms, but I think this thing is worth a great deal of study. Finally, we ought to try it out and come up with

something. You have to appeal to the farmers; there is no question about it. You have to have publicity. I have already talked to Wright Bryan, the editor of the Cleveland Plain Dealer, in an effort to get this program carried through in a series of 6 or 7 articles in every Associated Press paper in the country. I also wrote to Mr. Warnick, who was the past president—now just left office—of the American Dairy Association. He is out in Utah and I have written to the National Producers Association and I have written to several State organizations, like the Higher Guernsey Association, in trying to get this publicity. We eventually will. I do think that all of the publicity that you give it will not amount to a tinker's hoot, unless you make it worth while for these farmers to see that they are going to be paid for doing something that they should have done of their own volition, should have done long ago. Now take our little farm. We have sent an average of 28 cows to the butcher every year in the last 5 years. That is, ending December 31, and 20 percent of what we breed on the farm ourselves will go to the butcher. We are gradually decreasing that number.

Mr. ABERNETHY. Thank you, Mr. Gorman. Is there anything else?

Mr. WILLIAMS. Mr. Gorman, what percent of these cows are found nonproductive by cow-testing associations and are sent to the butcher? Up in our country they are sent to the auction over here. They are good-looking cows and someone else buys them. Take the fellow who is in these cow-testing programs. That is what happens. He does not send them to the butcher. He sends them over here to the cow auction.

Mr. GORMAN. The breeding associations are discouraging that, because when a farmer has a cow that is not paying for itself and he sends it to an auction, that is not doing the breed any good, because that cow is going to create a sore eye to the breed. That is the reason we send our personally to the butcher at Cleveland, Marion, or the best market at the time.

Mr. WILLIAMS. We have thousands of individual 10,000-pound Holstein cows that fail to test 3 percent.

Mr. GORMAN. You do not have to test 3 percent.

Mr. WILLIAMS. Anyway, she is mighty attractive to the buyer.

Mr. GORMAN. She does not have to test 3 percent.

Mr. WILLIAMS. She will bring more money than the 6,000-pound cow that tests 4.

Mr. GORMAN. I think you must misunderstand me there. I am not laying stress on the testing. All I said was the quantity of milk, 6,000 pounds. Gentlemen, it is really pathetic, if you go through the country as I do, and watch these dairy herds. They just do not have any udders.

I do not want this to go on the record.

Mr. ABERNETHY. Off the record.

(Discussion off the record.)

Mr. ABERNETHY. I think that Congress would go for the money that would be involved, if you sold the people on those. When I say "you," I have reference to everyone. This is of such magnitude—I am not speaking of dollars and cents but I am speaking of the people that

are involved and the effects on every section of the country—there are some sort of dairying activities going on everywhere in every State.

Mr. GORMAN. Right.

Mr. ABERNETHY. That is one of the big difficulties in selling a dairy program. You have so many different types of people, or types of dairying, I mean, and they are so broadly distributed throughout the United States that it is a little bit difficult for you to come up with something and say, "We"—when I say "we" I mean all of the dairy farmers—"want this." In any event, Mr. Gorman, I am impressed with your persistence and your sincerity.

Mr. GORMAN. That is the Irish that is in me.

Mr. ABERNETHY. And your hard work. You are a very persistent man, I must say, and I admire you for it. I am glad that you have come and we are delighted to have had your testimony.

Your coming here—I do not want you to be misled—is not of itself sufficient to do this job.

Mr. GORMAN. I understand that fully.

Mr. ABERNETHY. You have many dairy organizations in this country. Here is a representative of one of them sitting here. He is always here when we have a meeting and he tends to his job.

Mr. GORMAN. Who is this gentleman?

Mr. ABERNETHY. I do not know that we ought to put this in the record. However, we appreciate your statement and we are delighted to have had the opportunity to hear you.

Mr. GORMAN. May I ask one question?

Mr. ABERNETHY. Yes.

Mr. GORMAN. Do you not think this has merit? Do you not think it is worth studying to see what could be accomplished?

Mr. ABERNETHY. I do, but I am not the man to head up that job. You know what my situation is.

Mr. GORMAN. Yes.

Mr. ABERNETHY. That is the reason that this committee is made up here principally of these gentlemen from the dairy sections, the intensified dairy section of the country, and I am not from that section. I think it is worth studying, but somebody has to take this to the people and sell it to them. They have to sell the Department, and the dairy organizations. It is a big job.

Mr. GORMAN. Correct. I am very grateful for the time you have given me and I hope that it will not be in vain. I hope that it will be studied and that you will try to work out something.

Thank you.

(The following material was submitted by Mr. Gorman:)

Production per cow, pounds	Feed cost	Other costs overhead	Milk income $3.50 per 100 pounds	Labor income per cow
5,000	$100	$66	$175	$9
7,000	120	70	245	55
9,000	142	76	315	97
11,000	167	84	385	134
13,000	195	94	455	166

Get your income from high producers—Fewer cows, less work

Production per cow, pounds	Labor income	For $3,000 labor income	
		Cows needed	Milk produced
5,000	$9	333	1,665,000
7,000	55	54	378,000
9,000	97	31	279,000
11,000	134	22	242,000
13,000	166	18	234,000

KEARNS PACKING CO.,
Mansfield, Ohio, May 14, 1957.

Mr. J. C. GORMAN
The Gorman-Rupp Co., Inc.,
Mansfield, Ohio.

DEAR MR. GORMAN: This will confirm our telephone conversation of this morning during which we discussed the probable effect of more dairy cattle being placed on the livestock market for slaughter.

From our past experience it is our opinion that the slaughter of more dairy cows will not reduce the sale of the better beef as used on the butchers' block for cutting. Approximately 95 percent of the cows we kill are used in our sausage kitchen and in ground beef.

At this time there is a shortage of cows on the market and any move made to release more would be a step in the right direction to help hold down any further increase in living costs to the public.

We are in favor of any legislation that might help to bring this about.

Very truly yours,

KENNETH BEAN,
Plant Superintendent.

CULL THE COW THAT CULLS YOUR PROFITS

Dairy farmers can help meet the present dairy situation and improve production efficiency by heavier culling of cows that are producing milk at little or no profit.

DAIRYMAN'S DILEMMA

More cows producing more milk.
More consumers taking less milk.

In the last 10 years

Much progress has been made to increase production efficiency. Average production per cow has continued to increase, from 4,600 to 5,400 pounds.

But average consumption per person of milk in all forms has declined from 752 to 689 pounds.

DAIRYMAN'S DOUBLE DUTY

Send the slackers to slaughter

Culling unprotable cows is good business any time. By getting rid of the animal that isn't paying her way, you can use the labor and feed for more efficient producers or other farm enterprises. Closer culling is needed now.

More milk in more mouths

To reverse the trend of declining consumption, dairymen need to step up support of programs aimed at bringing facts about milk to the consumer.

FACING FACTS

Milk cow numbers have increased 6 percent since January 1, 1952. This increase was caused by saving more heifers and a relatively low rate of culling milk cows.

The same culling rate in 1954 as in 1953 would result in a further increase in cow numbers by 2 or 3 percent.

The culling rate needs to be increased 10 percent over the 1953 rate to hold cow numbers at the level of January 1, 1954.

A cow that makes no money for the dairyman is also a hindrance to the dairy industry. Additional production helps build up the surplus of dairy products and depress prices for the entire dairy industry.

Today's plenty—tomorrow's problems

Since late 1952 production has exceeded consumption at prices consumers have been willing to pay.

In 1952 dairy products bought by the Government to support prices were equivalent to 0.3 percent of total milk production.

In 1953 dairy products purchased to support prices were equivalent to 8.3 percent of total milk production; however, a portion of the products had been manufactured in 1952. Government purchases as compared with production amounted to:

One-fourth of the butter produced.
Nearly one-third of the American cheese produced.
About one-half of the nonfat dry milk solids produced.

In 1953 total United States milk production, 121 billion pounds.

Total United States milk in all forms used, 116 billion pounds.

In 1954 prospective United States milk production, 124 billion pounds. Prospective use, milk in all forms, 118 billion pounds. (This allows 2 billion pounds for the increase in population.)

People and milk

Total United States milk consumption in all forms increased:

1920–30: At twice the rate of population increase.

1930–40: At the same rate as population increase.

1940–50: At one-third the rate of population increase. The decline in butter consumption per person during this decade reduced total milk requirements.

DAIRY CHANGES NEVER CEASE

In war

Government payments during the Second World War brought forth more milk. Retail price ceilings helped increase consumption of dairy products that were not rationed. On the other hand, while butter was rationed, consumption per person declined 4 pounds in 1 year from 1942 to 1943.

Farmers shifted from selling farm-separated cream to whole milk. Sales of milk as cream dropped about one-half. There was a corresponding increase in whole milk sales. This resulted in twice as much nonfat dry-milk solids for human use, the increase going to military and foreign uses.

In peace

By the end of 1953 production of nonfat dry-milk solids had doubled again since the end of the war. Consumers here at home took only about half of this production. The Government bought the other half for price support. Exports fell to a low prewar level.

Total United States milk production dropped slightly until late 1952. Then production swung upward. Government purchases of dairy products to support prices began the latter part of that year.

Per capita consumption of butter continued to decline to about 8½ pounds, one-half the prewar level. For each 1-pound reduction in butter consumption per person about 3 billion pounds of milk was released for other uses.

Per capita consumption of fluid milk and cream declined and then leveled off to about where it was when the war started.

The individual consumer is eating more ice cream and cheese than before the war, and twice as much nonfat dry milk solids. He has also doubled the amount of margarine he eats. The amount is now nearly the same as the amount of butter used.

INCREASED COMPETITION FROM VEGETABLE FATS

Between 1944 and early 1953, the sale of yellow margarine was legalized in 26 States leaving only 2 which prohibit its sale. The Federal excise tax of 10 cents a pound on yellow margarine was removed in 1950.

The production of frozen desserts using vegetable fat doubled between January and December 1952 in the four States that permitted their sale. Production con-

tinued to increase in those States during 1953 and frozen desserts were legalized in six additional States.

The manufacture of "filled" evaporated milk, which has vegetable fat in place of milk fat, is permitted in four States.

Of the vegetable oils used in margarine, about two-thirds is soybean oil and one-third cottonseed oil. Today, 6 hours of labor can produce 220 pounds of soybean oil from the beans grown on a single acre. This is 36 pounds per man-hour.

Allowing 3 acres of cropland and 2 acres of pasture for a dairy cow, with the average production in Dairy Herd Improvement Association herds of 366 pounds of butterfat per cow, production is at the rate of 73 pounds to the acre. With 120 hours of man-labor per cow the production is 3 pounds of butterfat per man-hour.

TREND TOWARD SPECIALIZATION

According to the 1950 census, milk was produced on about 3.7 million of the 5.4 million farms in the United States. Of the farms on which milk was produced, 2 million could be considered as having a commercial dairy enterprise. The other 1.7 million produced no milk for sale in 1950. Apparently most of the production on these farms was for home use. A comparison of herd size and contribution to the total milk supply is shown in table 1.

TABLE 1.—*Estimated distribution of dairy herds and percentage of milk supply produced, by size of herd, United States, 1950*

Size of herd (number of cows)	Number of herds	Proportion of national milk supply produced
	Thousands	*Percent*
1 to 2	1,705	9
3 to 9	1,321	24
10 to 19	473	31
20 and more	183	35

Notice that herds of more than 10 cows produced about two-thirds of the Nation's milk supply, while small herds making up one-half the total number of herds produced less than 10 percent o fthe milk.

In an effort to produce milk more efficiently, farmers have been increasing the size of the dairy enterprise. The result has been a trend toward larger and fewer herds. Between 1944 and 1949 (when prices of milk and butterfat averaged above 100 percent of parity) the number of farms in the United States from which dairy products were sold declined 19 percent, yet the change in the total milk production was less than 1 percent. The largest decline occurred on farms reporting less than 10 cows. For example, in Pennsylvania, 25 years ago 47 percent of the total milk production came from herds of 9 cows or less. Today only 18 percent of the milk comes from herds of that size.

CULLING RATE DEPENDS ON CONDITIONS

To be efficient, a dairy herd must be large enough to make good use of equipment, barn space, and labor, and be made up of cows that pay their way. You would be better off without a cow that doesn't pay the direct costs of keeping her, even though you can't replace her with a better cow and the smaller herd that results would bring in less total money.

The rate of culling dairy cows depends on conditions. In 1945 when the decline in cow numbers from the all-time high began, 27 milk cows were eliminated from herds for each 100 cows on hand. In 1952, when the current buildup in cow numbers began, only 21 milk cows were eliminated for each 100 cows. Consequently there are now on farms a substantial number of cows that ordinarily might have been culled. Many of them may be unprofitable now that the cost-price situation has changed.

NO MAGIC FORMULA FOR CULLING

There is no magic formula for culling. It is a decision facing you as an individual dairyman and pertains to individual cows in your herd. There are at least three questions to consider:

1. Will it pay you to replace cow X with a higher producer?
2. Will it pay you to remove cow X without replacing her?

3. If you decide to remove cow X, when is the best time?

The answer to these questions involves an analysis of receipts and expenses. Your decision will also be influenced by such factors as the feed supply, labor force, barn room, and other particular circumstances of the individual farm. Aged cows, hard milkers, and slow breeders should also be considered for culling.

Milk cows should be blood tested for brucellosis. Not only are infected cows spreaders of the disease and a menance to health, but they are known to produce one-fifth less milk and are slower breeders than their healthy counterparts. Milk ordinances requiring herds to be brucellosis free are already in effect in many markets and the number of ordinances is increasing.

Replace cow X?

Evidence indicates that replacement of a cow by a higher-producing cow would generally be profitable, however, in the short run it is not possible for all dairymen to do this. The total number of good cows is limited and cannot be materially increased until more are raised.

Remove cow X?

Table 2 shows gross receipts per cow at various levels of production at average prices for milk on April 15, 1954, for the West North Central States, the Nation, and the New England States. By using the prices in your market, calculate your receipts at the different levels of production.

TABLE 2.—*Average gross receipts per cow from various annual production levels at different prices*

Production (pounds)	Prices per 100 pounds			
	West North Central, $3.19	United States, $3.67	New England, $4.29	Your farm
3,000	$96	$110	$129	
4,000	128	147	172	
5,000	160	184	214	
6,000	191	220	257	
7,000	223	257	300	

If you sell cow X without replacing her, that amount of gross income represented by her production would be lost. On the other hand, some, but not all, of the production expenses would be reduced or eliminated. Regional differences in costs occur as they did in the prices received for milk. Average prices of baled hay in April 1954 were $18 a ton in the West North Central States and $32 a ton in the Northeastern States. Likewise, the value of 100 pounds of concentrate for milk cows ranged from $2.99 in the West North Central States to $3.97 in the Northeastern States. Assuming three different levels of costs, the reduction in expenses for each would be as shown in table 3.

This assumes that hay and homegrown grain can be sold at going prices, but that pasture and silage cannot. No reduction in labor cost is allowed, on the reasonable assumption that the labor released in handling one cow is not likely to find other productive employment at least in the short run.

You may feed more or less grain or hay per cow than the quantities shown in the table, depending on the size of your cows, the length of the grazing season, or other factors. Your other costs may differ from those shown. The blank column in table 3 is for you to use in estimating the costs you would eliminate by culling a cow from your herd. Compare the costs with your receipts in table 2, as an aid in determining whether it would pay to remove a cow without replacing her.

Spring or fall culling?

To help decide whether to cull in the spring or in the fall, make a comparison of the returns to be made from summer grazing against prospective lower selling prices for the cull cow at the end of the season. Prices are highest in the spring. Prices of utility-grade cows in a normal year are 9 percent above the yearly average in May—and 7 percent below in November.

TABLE 3.—*Estimated annual expenses eliminated by removing from the herd a cow producing 5,000 pounds of milk*

Item	Quantity	Costs			
		Low	Medium	High	Yours
Grain	0.8 ton	$48	$56	$64	
Hay	2.5 tons	45	80	115	
Milk hauling	50 hundredweight	10	12	15	
Depreciation on cow		12	15	18	
Dairy supplies and services		15	15	15	
Miscellaneous		15	15	15	
Total reduction		145	193	242	

SUMMARY

Milk production (the supply) has been exceeding the amount consumed (demand) at prevailing prices since late 1952. In order to balance the supply and demand, it will be necessary to produce less or consume more, or some of each. The recent reduction in prices should encourage consumption. However, lower milk prices call for an increase in production efficiency, and the individual dairyman must adjust his culling point as costs and prices change.

(Federal Extension Service, U. S. Department of Agriculture.)

Mr. ABERNETHY. The subcommittee will be adjourned.

(Thereupon, the subcommittee was adjourned at 11:20 a. m.)

MILK

WEDNESDAY, MAY 22, 1957

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON DAIRY PRODUCTS
OF THE COMMITTEE ON AGRICULTURE,
Washington, D. C.

The subcommittee met at 10 a. m., in room 1310, New House Office Building, Hon. Thomas G. Abernethy (chairman of the subcommittee) presiding.

Mr. ABERNETHY. This subcommittee is meeting this morning for the purpose of taking testimony from the National Dairymen's Association, of which Mr. Arthur J. Gude is president.

Some weeks ago Mr. Gude wrote me of the new program that he and his group had under study. Some time thereafter he, accompanied by some of his associates, visited my office. There they inquired of me if they might have an opportunity to present their views to this subcommittee. I was very happy to oblige and fixed this date as the day on which they would appear.

Incidentally, we are glad to have your very valuable and most likable and prominent Congressman, Mr. Bass, here with us this morning. We are glad to have you, Mr. Bass. We would like to have you sit up here with us.

Mr. BASS. Thank you, Mr. Chairman. I will do that for a few minutes.

Mr. ABERNETHY. Mr. Gude, we are glad to have you. You may identify yourself for the record and identify your associates and then you may proceed with your statement.

STATEMENT OF ARTHUR GUDE, PRESIDENT, NATIONAL DAIRYMEN'S ASSOCIATION; ACCOMPANIED BY WILLIAM WALDORF, PRESIDENT, DAIRY FARMERS OF AMERICA; AND JOHN GURTNER, SECRETARY-TREASURER, NATIONAL DAIRYMEN'S ASSOCIATION

Mr. GUDE. This is Mr. William Waldorf, president of Dairy Farmers of America and director of National Dairymen's Association. This is Mr. John Gurtner, of Wisconsin. Mr. Waldorf is from New York State. Mr. Gurtner is secretary-treasurer of the National Dairymen's Association.

My name is Arthur Gude. I am a dairy farmer residing in Langdon, N. H. I am president of the National Dairymen's Association, a newly formed group sponsoring a stabilization program which will, we believe, return the pricing of milk to the people who own the dairy farms.

The time has come when we all feel that dairy farming has to have a program that can be supported by all dairy farmers throughout the country. A program based upon and developed within the established historic American methods of assuring to those who are economically unable to adjust by themselves to new developments in our dynamic, ever-changing, progressive economy—to assure to those people equal opportunity. Equal opportunity to profit from risking their capital when their venture is successful, and equal opportunity to lose when their venture is unsuccessful. Equal opportunity to enjoy the fruits of their labor on an equitable basis with the rest of the American economy.

As a starting point we will go over the inequities and irrational disturbances in American agriculture.

INEQUITIES AND IRRATIONAL DISTURBANCES IN AMERICAN AGRICULTURE

Citizen A, covered by unemployment insurance, receives more remuneration for not working a 40-hour week than citizen B, a dairy farm employee or self-employed dairy farm owner, receives for 40 hours of highly skilled labor. And the trend is toward a further segregation of agriculture by increased unemployment payments and decreased workweek.

American children are no longer killed in American mines or heavy machine industries. Modern agriculture is the most dangerous of our heavy machine industries and the age group most commonly killed in American agriculture is 10 to 14 years of age.

As dairy farmers we have an estimated $20 billion of capital invested in the milk production industry, which we risk for no profit and an average hourly wage of less than 50 cents an hour in a country with an average hourly wage rate of about $2 an hour and a minimum wage of $1 an hour. Dairy farm employees as well as owners labor 3,600 to 3,700 hours a year in a country with a 2,000-hour work year.

American citizens are told that there is an excess of human resources in American agriculture, but American dairy farm employees work almost double the number of hours that other American employees work. There are not too many workers on dairy farms—there are barely half enough.

American citizens are told that there is an excess of human resources in American agriculture, but our laws allow the importation of foreign farm labor on a temporary basis at a cost substantially below the minimum wage. This is in direct competition with the labor of the commercial family dairy farmer, his sons' labor and his employees' labor, forcing American citizens to live with the hours of drudgery and low living standards that our country has no successfully eliminated within 87 percent of the population.

We have to invest an average $25,000 to $30,000 to create one job in the dairy production industry, and the job pays an average of 50 cents an hour. In American industry it takes an average of $12,000 to $14,000 to create a job and the job pays an average of around $2 an hour. In short, we invest about 100 percent more capital to create a job worth 25 percent as much in labor income as does the American industrialist.

Our milk is priced under Federal orders on the principle of guaranteeing a minimum price as if we were labor and could bargain.

But we are agricultural capital and, due to the structure of our business (several million sellers, only a few buyers), are much weaker economically than unorganized labor. A skilled workman loses $120 a week if he withholds his labor to bargain for a better wage. A skilled dairyman shipping 2 tons of milk a day loses $1,500 a week, and in a short time would also lose his $100,000 investment as well as his 50 cents an hour job if he withheld his milk to bargain for a price.

Last year the inmates of Sing Sing who work in the factory were granted the 40-hour week. Agricultural workers are often not as well clothed, as well fed, or as well housed as the inmates of Sing Sing although they perform necessary productive labor for unlimited hours. As a nation we are at present willing to pay more to insure the welfare of our criminals than we are willing to pay those who produce our food.

This maladjustment in our economy is not an adjustment that farmers can bring about individually for they are too weak economically and politically. Individually they cannot adjust their prices to reflect their costs, or, as individuals, control their production reasonably to the effective demand.

This unreasonable and immoral situation under which we are living in the richest country in the world has not as yet become a public issue, and it will not be solved until it is brought to the attention of the American people. We believe the fairmindedness and spirit of fair play of the American people do not want this condition to exist, for we all must know that our successful American economy can pay for its food at a price which would allow an equitable position in the American economy for farm workers and farmers.

As the above inequities are common knowledge among friendly foreign nations as well as unfriendly nations, it is hardly possible that this existing lag in the adjustment of a small and weak segment of our own population to the economy we have adopted for the rest of the Nation would instill in other nations the confidence in our country which is necessary if our way of life is to prevail.

Now any program that we can support must in itself eliminate all of these inequities, not only for the good of American agriculture but for the good of America. The program that we will present, although not necessarily in its final form, does eliminate these inequities and that must be the gage by which we judge any dairy farm program.

The program creates market equity by fixing milk prices on a constructed average cost of production basis. If we should have to have quotas, freedom of entry and exit for the farmer is maintained by the salability of the marketing quotas which leaves entry and exit just as free as it is in my area at this moment. My next-door neighbor can't make milk on his farm because he has no market, so he is in the process of locating a farm in the neighborhood that is for sale and that has a market. Freedom to increase production or decrease production is maintained by the same method.

The factors involved in this commodity program are not new to the American economy. We have, as a nation, been fixing prices for almost half of our history for those industries which, because of their structure, could not be left alone to fix their own prices. Railroads, for example, because they had market power greater than their custom-

ers, because the structure of their business allowed them to price their services inequitably, the American people insisted upon Government price fixing—and price fixing on a cost-plus basis. In the 1870's when this happened 70 percent of our population were farmers and they organized the Grange. And it was through the activities of the Grange that this new concept in our economy was established. The United States Supreme Court in 1876, by the decision in *Munn* v. *Illinois*, established as constitutional the principle of public regulation of private utilities devoted to public use. Through the democratic process we as a nation established a method to intelligently adjust to our capitalistic economy this new group who could be adjusted in no other manner. This method proved successful and has since been applied to other utilities such as electric power, telephone, and groups of private capital such as insurance companies whose rates are checked in many States to make sure that the rates are high enough to keep them solvent (so they can pay their claims) and low enough so that their profits are not exorbitant. They are regulated—an old American capitalist custom.

So much for the American tradition of Government regulation of industries which do not fit into our system of capitalist enterprise.

However, we do not argue that milk is a public utility. There are those who do argue this point and they have many good arguments on their side. But we believe that the basis of Government pricing of utilities is that these new industries were, due to their basic structure, monopolistic by nature and our competitive price economy of the 1870's had no other way to control them. Therefore, the public turned to Government for the purpose of doing that which they could not do for themselves.

Well, if we are not a monopolistic public utility, how can one describe our dairy production industry? How can we justify a national dairy pricing program that comes within the legal framework already established in our country that asks Government to maintain legally our prices and quotas?

I think one of the best ways to describe our industry is to say that it is the antithesis of monopoly. It is a highly competitive market of many small sellers none of whom have any direct control over the price or production of the national milk market. Our industry is still referred to in economics as the "perfect market," meaning that it adheres to the prehistoric notion of the perfect competitive model which was first described by Adam Smith in 1776. At that time Adam Smith, and a few decades later Ricardo gave a practical and fairly accurate description of markets as they existed in their era. And we still have in our industry unfortunately a reasonable adherence to the laissez faire system or system of free markets, or free enterprise as it was called, in which no human intelligence is able to influence the market and, as Adam Smith said, equilibrium is maintained by an invisible hand. Lack of human knowledge of economy in that period made it necessary for everyone to live at the mercy of the unknown—the invisible hand—with the result that 98 percent of the human race lived in grinding poverty during the heyday of that system of free enterprise. Free enterprise which the grand master of the Grange, Herschal Newsome, for one has pointed out no longer exists in our economy. We have private enterprise, private capital, but our economy is far, far removed from free enterprise. Our great

corporations—200 of them control over 50 percent of our national production—have succeeded in producing the greatest economic success—the highest level of material well-being for our Nation that man has ever reached. And how do they fit into the theories of free enterprise? They don't They won't have any part of the competitive model of many small sellers and many small buyers—they won't let the invisible hand destroy their price. They have used their initiative and intelligence to merge together and obtain security from the unknown. They won't compete on price just because some wornout economic theory says they should. Let us look at United States Steel, because the steel industry is very similar in structure to many other American industries. There are about 100 steel companies, but the price of steel is set for the industry by a few of the largest corporations. This is not monopoly, monopoly means just one. This is technically oligopoly. But the pricing is monopolistic—just one price for the industry.

As an example of this—during the Senate investigation of Wall Street 2 years ago, Senator Fulbright asked Mr. Benjamin Fairless, then president of United States Steel, "Do you compete on price?" Mr. Fairless answered, "No, we do not compete on price, we have a profit object to maintain. We compete in other fields like service, but we will not compete on price." Senator Fulbright said, "Well then, you would say that those people who would return to the price competition of 50 years ago are wrong." Mr. Fairless answered, "Prices were very low in the thirties and it didn't seem to do anyone much good."

Now Mr. Fairless is one of our great industrialists, a director of United States Steel, he is or was president of the Steel Institute, the trade association of the steel industry. He knows that United States Steel must plan its production accordingly and suffer some loss when it miscalculates. He knows that United States Steel can and does fix its price and then applies human intelligence to the so-called law of supply and demand and adjusts its production to what it can sell at the fixed price. This is not free enterprise. I don't believe that our great industrialists would object to our using our initiative to obtain the security they have obtained for themselves.

As farmers, we fought the development of this economy in every way we could. We have seen how we used law to control the market in equities of the utilities, we turned to legal methods to control the market inequities of the large corporations through the passage of the Sherman Antitrust Act. We tried to join them through the formation of cooperatives, but selling cooperatives in the milk business or any other nationally produced farm product, no matter how well they are managed, come with a fatal built-in weakness in that they do not control the production of nonmembers or even of their own members in the market place. We have the National Federation of Milk Producers, a fine organization of cooperatives, but they have never been able to get market equity for us because they have no bargaining power. If we are to have market equity in the American capitalist economy of today we must act as other American capital has acted and merge into one national dairy commodity organization.

We have been looking at the present state of capital activity in our country and well we should, for as dairy farmers we have a $20 billion investment in our industry. How does American labor in the middle of the 20th century fit into Adam Smith's free enterprise? It doesn't.

The minimum wage as described by Adam Smith was "the amount which would sustain life so that the working class would not die off." American labor doesn't accept that idea. Instead they have built up tremendous labor monopolies to create by their own initiative market equity for themselves in the labor market. Labor has used government and law and human intelligence to obtain security from the brutality of the free competitive labor market with its 84-hour week, periodic depression and unemployment, and wages just high enough to maintain life. I don't think that American labor believes that we should not use our initiative to obtain the market equity that would give us the security that other segments of the economy have attained. We as farmers are often told when we seek a better price that we should use our initiative, never mind looking for security. When in the history of man has man used his economic initiative for any other purpose than to secure his position? When has man used his economic initiative to obtain insecurity?

American capital and American labor (87 percent of America) have elevated themselves above the economic hazards of 18th century human poverty. If security ruins initiative, how is it that our privately owned corporate economy is the most successful in the world? And that American labor is the most efficient and productive in the world? Our Nation has developed a superior industrialized controlled economy to which dairy farming has adjusted on the technical level just in the past 15 years. Our efficiency is the wonder of the agricultural world, but we have not adjusted to the American economy on the market level. That is the only difficulty with farming. That is the farm problem.

We are like the hero of that World War I song hit "They're all out of step but Jim." And we farmers are Jim. We have been encouraged to try to make the whole regiment "hup" and get back into step with us in the insecurity of the 19th century economy, but the corporate leadership and the labor leadership isn't having any of that. They like what they have and it is up to us to "hup" and get into step with the successful American economy.

Prof. Willard Cochrane of the University of Minnesota told me just a short time ago that our trouble was that we were back where the rest of the economy was in 1890. He is one of the many who are on our side and he is trying to develop means by which we can develop market equity.

Now look at what happens when you have base surplus plans and production deterrents. We have known for generations that our position in the market place was weak. Our Government recognized this fact. That is why we have Federal marketing orders offered to us by our Government. And we vote in favor of them or we wouldn't have them. No one pushes marketing orders down our throats, we vote for them. Whenever farmers are given a chance to vote for a fair price coupled with restrictions, they nearly always vote yes. And the longer these programs are in effect the higher is the percentage of votes in the affirmative. It is self-evident that we want to enjoy a better price and a stronger position. But don't expect dealers, handlers, to give up without a strenuous fight.

Professor Galbraith is not only a professional economist of very high standing, but he has done a great deal of work in the field of agricultural economics. With regard to legislation for farmers, Professor

Galbraith has this to say, "The fact that modern farm legislation is now of many years standing, that behind it is a long history of equivalent aspirations, that there is not a developed country in the world where its counterpart does not exist, that no political party would think of attacking it are all worth pondering by those who regard such legislation as abnormal. If we fail to regard Government support to the bargaining power of the farmer and other groups as normal, we shall be less likely to correct the considerable number of abuses and faults which have been associated with Government aid to countervailing power—abuses and faults which have been especially numerous and serious in agricultural legislation."

We have a program here that would return the pricing of milk to dairy farmers through a board of stabilization directors elected by the people who own the dairy farms.

It sets a fair price based on a constructed average cost of production with all decisions in the construction made by farmers. Parity as now constructed just isn't high enough for our commodity. Senator Aiken has pointed out that a dairy farmer cannot pay his bills on 125 percent of parity while a potato farmer can make a fortune at 100 percent of parity. Parity doesn't reflect either costs or volume and the price level in any industry is determined by both marginal costs and volume.

This program asks farmers to use their ingenuity to fit their production to the effective demand. Knowing that we cannot calculate exactly the demand we agree to handle the overage at a lowered price and relieve the taxpayer of the cost of a storage and support program by paying for it ourselves.

Agricultural income per capita continues at about one-third of the rest of the economy. As long as this is true we will be in the position of subsidizing our American economy. It seems to me that when a small minority is unable to adjust because of the structure of its industry to a new economy adopted by the rest of the country and as a result of this lack of adjustments 87 percent of the people enjoy the results of our efficiency that we have government for the benefit of the many at the expense of the few, which is tyranny just as much as government for the benefit of the few at the expense of the many. There seems to be a considerable amount of thinking which emanates from the Department of Agriculture, the land-grant colleges, the Extension Service, et cetera, which is determined to have cheap food at the farm level—regardless of how brutal, un-American, and undemocratic the process used to attain this end.

I do not mean to criticize any individual or the ability or sincerity of these men, but rather the concept in which they are thinking, the economic concept in which they are thinking.

Integration, which Assistant Secretary of Agriculture Butts hails in the broiler industry, is an example of the castration of agricultural capital and brutal oppression of American labor. He also points out that "large animal production in this country is by no means immune to the possibility of integration" and adds that "the pressure is in that direction." If this direction is followed, America will lose its right to be classified as a capitalist country, for the rights of agricultural capital will no longer exist. There is also a tendency on the part of the

Department of Agriculture and its various ramifications throughout the industry to substitute the word "efficiency" for the brutal degradation of American workmen, whether employees or self-employed dairy farmers. Orphans, the weakminded, ex-convicts, delinquents and others who are for one reason or another too weak to defend themselves economically also fall prey to the predatory labor practices taught by our land-grant colleges and the Department.

We believe the adjustments necessary can best be brought about by the introduction of a method of pricing milk that will allow farmers to reflect their costs, and we believe that the program that we are sponsoring will accomplish this necessary adjustment.

In closing, I should like to quote from Prof. Harry R. Rudin, Colgate professor of history and chairman of the history department at Yale University. "Men must learn the simple truth that the whole of the present cannot be carried unchanged into the future. This is history's most obvious lesson, and the hardest one to learn."

Now I will read an explanation of the program of the National Dairymen's Association.

PURPOSES

Dairy farmers agree that under the present system they have little control over the market prices of dairy products. Sources of distribution which set prices that affect his income are not interested whether he receives a fair return that will produce a profit over his production costs and investment.

If he is to survive, the dairy farmer must control the price of dairy products from the grassroots level. He must be able to take steps to eliminate damaging surpluses and regulate his income like any other businessman.

The only way these things can be accomplished is for the dairy farmers to be part of a closely knit organization which is controlled and administered from the dairy farmers' level, and not influenced by political or other consideration.

The National Dairymen's Association was formed to do these things. It promotes a plan conceived by dairy farmers with objectives based on the theory that what other industries, business, labor unions and agricultural groups have done to further their own interests, the dairy farmer can do for himself also.

Other plans proposed in the past have been temporary programs which have not been practical. This program is a long-term plan which strikes at the real cause of the dairy farmers' economic troubles. It will take up the surpluses and keep the dairy business stable.

In the final analysis, the purpose of this dairy program is to obtain equality of income for dairy-farm capital and dairy-farm labor in the American economy of the mid-20th century with American hours, wages, and profits, so that we can maintain our farms in a good state of physical repair and pay wages competitive with other industries, while maintaining a maximum of the power of decision in the hands of the individual dairy farmer compatible with the restrictions, both self-imposed and enforced by law, that are a part of our private-enterprise economy—the same restrictions which we must accept if we are to attain an equitable position in the market.

ORGANIZATION

The National Dairymen's Association is organized on a county or local unit level, each unit having its own officers and directors elected by its own membership. All local units are affiliated with the central organization, which will handle the program on a national level subject to the wishes of the members of the local units.

PROGRAM

A. This program can be put into effect with very little change in Federal legislation. We, as dairy farmers, can ask for a national Federal order on manufacturers' milk. In order to stabilize our own prices, we would have to have legislation allowing us to collect a stabilization fee for the purpose of buying surplus-milk products. With this legislation, we can support our own prices with money accumulated by a self-imposed stabilization fee assessed against each 100 pounds of milk.

B. The selling price will be determined by the stabilization board elected by the dairy farmers on a constructed average cost of production basis, including investment, taxes, depreciation, expenses, American wages and profits based on the cost-of-living index. Tentatively, the figure set for class II (manufacturers) milk is $5.29 in Wisconsin. A support price will be declared for milk powder, butter, and Cheddar cheese (of low manufacturing cost) at a figure to permit dairy plants to pay the farmers constructed average cost of production prices. By setting prices on powder, butter, and cheese, a floor will be established on all other dairy products. All milk prices are today and all milk prices will be under this plan based on surplus area manufacturers' milk prices plus freight and premiums. The surplus area today is Wisconsin and Minnesota. The farmer in the East does not produce enough class II milk to supply the Northeast area. The Northeast area is a dairy product shortage area and has to import cheese, butter, and powder from the Wisconsin class II surplus area. Under this program the stabilization board will do most of its purchasing in Wisconsin which produces 14 percent of the Nation's supply of milk, and which is the only area in which surplus class II milk is produced. The price for class II milk set by the stabilization board would become the price in the class II surplus producing area of Wisconsin. All class II milk in any other area of the United States would be paid for at the established price in Wisconsin plus the freight differential between Wisconsin and the point at which the class II milk was produced.

For example:

Price of class II milk in Wisconsin surplus area	$5.29
Base price of class II milk in New York	5.29
Plus freight differential of	[1] .25
New York price	5.54

[1] This is the rate of 100 pounds of milk equivalent in dairy products.

Class I in Chicago sets the price for all milksheds in the United States east of the Rocky Mountains. The Chicago price is the price of class II milk in Wisconsin plus a premium of $1. The class I (fluid milk) price in other milksheds is equal to the class II price in Wis-

consin plus the $1 premium in Chicago plus the freight differential from Chicago to the area where the milk is produced.

For example:

Class II milk in Wisconsin	$5.29
Plus premium for class I (fluid) in Chicago	1.00
Plus freight differential between New York and Chicago for 100 pounds of fluid milk	1.75
Price of fluid milk in New York	8.04

Example of 50 percent fluid pool blend price as in New York State:

100 pounds class I milk	$8.04
100 pounds class II milk	5.54
Blend of 200 pounds of milk	13.58
Blend price of 100 pounds of milk ($13.58 divided by 2)	6.79

At the initiation of the program it would be in the hands of the stabilization board to gradually increase the price to equal cost of production plus wages and profit as determined by the index of the cost of production and the index of the cost of living. The stabilization board, by carefully watching the effect of the price increases on demand, could best determine how rapidly the price can be increased to the full $2.04 above the present price of $3.24. It is suggested that the stabilization board increase the price of 3.95 percent milk (national average) by $1.40 per 100 pounds at the beginning of the program, and that the remaining 64-cent increase in price be added to the farmer's price as rapidly as the market will absorb it.

C. This price, based on $5.29 per hundred, would bring the price of powder at the plant level to 22 cents, butter to 85 cents, cheese to 53 cents.

D. Each dairy farmer would receive $2.04 more per 100 pounds of class II milk at the price of $5.29 per hundred pounds than he receives today. A portion of this $2.04 increase would be deposited into a central buying account. This portion, 35 cents per 100 pounds of milk sold, would be put into a central buying fund controlled by the stabilization board to buy back the surplus-milk products, administer the organization, and build up a surplus fund. The actual cost of buying back the 3-percent surplus which we now produce at the above-mentioned price of $5.29 per hundred plus the manufacturing costs would be 17½ cents per 100 pounds of milk. After the first year of operation, it would only be necessary to deduct 17½ cents per 100 pounds of milk sold by the farmers to handle the surplus of dairy products, providing that the surplus situation remained the same as it has been for the last 5 years. This 17½ cents per 100 pounds would not cover the cost of administering this program. We do not know what the administration costs would be, but believe that one-half to 1 cent per 100 pounds would be an adequate amount.

E. All surpluses would be disposed of immediately outside of normal channels of domestic trade (foreign trade). The returns from these sales would go back into the central buying fund of the stabilization board.

F. The national organization will give immediate attention to the institution of proper controls in order to protect the market against any possible flooding through increased production. For security reasons and to insure an abundant supply of dairy products to the consumer, we should never produce less than a 3-percent surplus. It is

impossible to calculate the exact demand of any dairy products or to produce exactly to the effective demand on the national market.

G. The organization of commodity groups for the purposes of establishing stabilization boards to stabilize the prices of pork, beef, and poultry is now in progress, and the fair prices established under these stabilization boards for their products would act as a deterrent to keep these farmers from entering the dairy business. To make certain that this program would function at once, the Government would be requested to dispose of existing surpluses.

H. The Government will be asked to fix a flexible tariff on dairy products to guarantee that no farm products would be imported to compete with the American dairy farmers at a lower price than the one set for the United States. Government will also be asked to turn over to the dairy farmers' stabilization fund the income from this tariff. The basis of this request is that dairy farmers have to buy up surpluses that are caused by the importation of foreign dairy products.

I. Any seasonal price adjustment system now in effect in any fluid market can be superimposed upon the base price at the discretion of the buyers and sellers involved.

Prices are figured on the national average due to variation in fat content in different fluid market. To get prices in your market, deduct or add fat differential.

Thank you very much, gentlemen.

Mr. JOHNSON. Thank you, Mr. Gude, for your very complete statement.

Have you any idea what legislation you think would be necessary to do the thing you wish to do under this plan?

Mr. GUDE. Well, they tell us——

Mr. JOHNSON. When you say "they," whom do you mean?

Mr. GUDE. Well, let us see. Mr. Stanton, I believe, is his name, and he is the legal adviser to the Senate Agricultural Committee. We had a long discussion with him, and he got, I believe, Mr. Kraus of the Department in the legal department of the Department of Agriculture on the phone to go over the thing. One very necessary piece of legislation is that there is nothing in the agricultural act about deducting from the milk price—that is, making assessments against milk prices—to buy up surpluses.

There is absolutely nothing in there. There would have to be legislation to make that permissible.

Mr. JOHNSON. Is it your idea that it would be compulsory or that it would be up to the farmer to decide whether he wanted to go into the program or not?

Mr. GUDE. Of course, it would be the same as the Federal orders are now. I think on milk production there have to be three-fourths of the farmers in agreement before there can be a Federal order. Then, he wrote up a bill for us. There was a discussion and Mr. Kraus seemed to think that the Secretary could raise the price of milk to that degree under the agricultural act because he has the right to price milk at above 90 percent of parity due to other economic conditions, but some other men in the Department did not think so when we spoke to them.

I notice that Mr. Stanton put in the bill the wording "average cost of production." What we mean by "constructed average cost of production price" is that there are certain decisions that would have to

be made, and it would be an entirely synthetic figure, actually, but it would bear some relationship to the facts because we have a lot of information now, for example, that we did not have back in the twenties when this cost of production thing caused quite a bit of stir and I guess parity was used to replace that expression in getting the price for farmers, but since the twenties we have an awful lot of exact information.

For instance, we know what an American workweek is now, we know what a minimum wage is, and we know what the average wage is in the country. The DHIA in the dairy business has presented us—although I think it only covers about 5 percent of the dairy farmers—pretty well with an average cost of production that you can consider pretty good, because I do not think there would be much argument that most of our better farmers are in the DHIA even though the number is not large, and it gives more information on average production than is available in many other fields.

We all have those averages to work with.

The thing to be done, it seems to me, is to make the determination of what you are going to use, and what average production you are going to use. You would have to find out things like that and other information such as how many cows can a man working on a 2,000-hour workyear take care of in that workyear.

Your price would have to have an allowance for that in it. It does not seem to me that it would be a very difficult thing to do. We do it on other things. We do it in New Hampshire. They have a milk board which controls both the wholesale and retail price of milk and the dealer's price is based on their production costs. They start off with an average base that any reasonably efficient dealer would be able to make a profit at, and when their costs go up, they ask for a hearing and go before the board at which time they present the increased cost of tires, gasoline, and so forth, together with the same things which have increased for the farmer generally and the board reasonably allows them an increase.

When that happens, as it did here about 18 months ago——

Mr. JOHNSON. That is in regard to fluid milk?

Mr. GUDE. Yes, sir. The cost goes up to the consumer. There is no place else for it to go, but at the same time that our costs are going up, you see, we just simply do not get that increase, and have not been getting it.

Mr. JOHNSON. Do you intend under this program to control production?

Mr. GUDE. We say in the program that initiation of the program will not have any controls. If this price went into effect, I think it is only reasonable to assume that you would have an increase in production, but you would not have a tremendous increase in production immediately, because there just are not that many cows available to really increase production.

As a national organization, we would be able to send to each dairy farmer each 2-week or 1-month period the exact condition of the supply and demand factor; if he saw supplies going up, that of course would increase his stabilization fee, and his price would be going down. I believe at that point with each farmer having discussed whatever quota systems are available to them and whatever production control

systems are available to them, they would be able at that point to ask the Congress to give them the right to control their own production, and I think they would be more likely to do it if they saw their price going down. That would be the effect of an increased stabilization fee or an increased deduction. So, it seems to me it would make it clear that you cannot produce all the milk you want and get a price for it any more than anyone else can in the economy that we live in.

I think we can produce a lot more milk than we produce now, and if you would give us a couple of years, we could really flood things.

Mrs. KNUTSON. Mr. Gude, how many members do you have in this program?

Mr. GUDE. This organization at present is an affiliation of some 11 groups that amounts to about 75,000 men.

Mrs. KNUTSON. How long has it been in existence?

Mr. GUDE. Just about 6 weeks—I guess 6 or 7 weeks. That is the reason for our coming here.

Mr. JOHNSON. What name are you operating under now?

Mr. GUDE. The National Dairymen's Association.

Mr. JOHNSON. I believe the group started up in Barron County, Wis.

Mr. GURTNER. We started under the name of the Dairy Farmers Price Stabilization Association. We will discontinue that name. We got together in Chicago and we formed this national organization, although we started as a national farmers organization in the beginning. But since we merged with all these other groups, we came up with a new name in order to be impartial.

Mr. JOHNSON. How many States do you cover?

Mr. GURTNER. The organization covers probably 25 States right now.

Mr. JOHNSON. What States are they?

Mr. GURTNER. The National Farmers Organization is operating in 17 States, and they have a couple hundred thousand farmers. They claim to have about 60,000 dairy farmers.

Mr. JOHNSON. What group is that?

Mr. GURTNER. The National Farmers Organization. Their headquarters are in Iowa, and they are solid for us.

In other words, they came us 100 percent not as an affiliation but to put their dairy farmers into our commodity group. They have the States all the way from Montana to Oklahoma along the Rocky Mountains and, of course, we have practically all the States involved from there on east.

We have just set up a meeting yesterday for Minnesota. Minnesota is not included yet, because they did not have the representation at Chicago, April 4, 5, and 6, 1957.

Mrs. KNUTSON. Your program seems to be very much like the wool program and the sugar program which we have in this country.

Have you ever studied those two programs?

Mr. GUDE. The wool program has a subsidy in it; does it not?

Mr. JOHNSON. Yes.

Mr. GUDE. This does not.

Mr. JOHNSON. You do not recommend the subsidy?

Mr. GUDE. We ask for no Government help whatever. It is financed by the farmer himself.

Mr. KNUTSON. It seems to me that you made some reference to the fact that the Government would step in and buy the surplus after the program had gone so far. Perhaps, I am mistaken.

Mr. GUDE. No. The purpose of it is the stabilization picture, which is very similar in structure to the program that has been followed by the Milk Producers Federation, and the Grange Committee is working on a stabilization program that is very similar to this, except that they leave the price at 90 percent of parity. At 90 percent of parity we simply cannot make milk, and be in an equitable position in comparison with the balance of the farming industry.

Mr. JOHNSON. I think Mrs. Knutson would like to know the name of the group in Minnesota, being from that great State. What groups are joining in from Minnesota? Is that the National Farmers Group?

Mr. GURTNER. No, sir; the National Farmers Organization I do not think has very many members in Minnesota. We have been asked by the farmers to set up a meeting, and we have now set up the first meeting at Rush City which is along the Wisconsin border, and as we go into Minnesota we will go in and explain the program and the Minnesota farmers no doubt will form their own local organization. The organization will be set up from the local grassroots level and will go on up to the national group. That is the way in which we have gone into new areas.

If there is a group in Minnesota that wants to come in as a group, of course, we are very happy to have them. There are other people on the farm who are working with different groups, but in the meantime we can explain it to the producer himself and in most cases he will take steps in cooperation with others to form their own local organization.

Mrs. KNUTSON. Referring to that question under paragraph G of your statement on page 5, do you mean before you could start your program and to make certain that this program will function at once, the Government would be requested to dispose of existing surpluses; is that what you mean?

Mr. GURTNER. We would like to have the Government give us a clean start, because we are going to take over the responsibility of buying our own surplus off the market with our own money, and we, of course, do not want the Government to dump its surplus into our lap, and say "here it is." If would be impossible for us to pick that up immediately without financial help.

So, we would like to make some sort of agreement whereby the Government's surplus would not be dumped on the market until this can be worked out.

If we can put this program into effect, let us say, in the fall, and the Government would give us a guaranty that they will not put any of their surplus back on the market immediately, we would have a shortage. We would have to make some agreement with the Government that during the next few months, if necessary, they could put their holdings back on the American market at our price, but not at the price at which they bought it, but at the new price established.

Of course, if we make that kind of an agreement, we probably would like to have them buy back an equal amount during the next flush period.

In other words, some sort of an agreement like that should be made between the farmers and the Government. I think as long as we are willing to take the load up on our shoulders that we should not be flooded with Government holdings immediately.

Mrs. KNUTSON. Is this the first committee to which you have presented the idea?

Mr. GUDE. Yes, ma'am.

Mrs. KNUTSON. You have never talked at all with the Department of Agriculture about this plan?

Mr. GUDE. Oh, yes, we have talked it over with people in the Department of Agriculture, and particularly with Mr. Forest, several times, because he is the Administrator of the Federal order program.

Mrs. KNUTSON. Did he give you any comment on your suggestions?

Mr. GUDE. Nothing except he said we would need legislation, and that it was his opinion that the Secretary could not price milk above 90 percent of parity.

Of course, he does in fluid markets now price milk above parity, but there is some disagreement in the Department about that, and I notice that Mr. Stanton put in the bill that we would need legislation to base the pricing of milk on a cost of production basis which, of course, would be a different thing, and the Congress if it did that would have to stipulate certain things which should be included in that construction of the average cost of production price, so that the Secretary would have an exact guide of what would be in there.

I believe, however, the farmers should determine that price and present it to the Secretary and see whether or not he approves of it. That is the only thing we can do, but if he had definite instructions from the Congress to act or use that as a basis for pricing milk, we would have one way of getting away from this parity which may work very well for wheat farmers, but not for dairy farmers.

Our cost now in most areas is above $3—our cash cost to produce milk. Therefore, even 90 percent of parity would not be sufficient. I think last year's figure in Wisconsin was around 30 cents an hour. That is what was left above the actual cash cost, and I do not think anyone should be investing their money or working in this country for 30 cents an hour.

One of our big difficulties that we run into every day is when we go to purchase things for our home and purchase family necessities, we have to pay an average of $2 an hour in labor for everything we buy.

Mrs. KNUTSON. In comparison, what would this bring to you on a per-hour basis?

Mr. GUDE. This price of $5.29 is based on the University of Wisconsin figures gotten from the 39 counties in Wisconsin and it includes $1 an hour for labor. In other words, our costs would be around $3.29 because it takes 2 hours to make 100 pounds of milk.

The national average is a little higher than that, but a pretty good farmer takes about 2 hours to make 100 pounds of milk.

If his price is $3, and if that is divided into 2 hours, it would be $1.50 an hour which would be pretty low pay for a highly skilled dairy farmer, and it gives him nothing with which to buy his tractors, his cows, gasoline, and so forth.

Mrs. KNUTSON. I certainly agree with you.

Mr. GUDE. There is nothing left, and the only reason we can stay in business at all for the most part is that we have some other means of income.

Now, in Illinois when they set the price at around $3.50 in the Chicago area; they could do that because those men own some very good grain farms, and they can make a living on their grain. In other words, they milk the cows purely for exercise.

In New Hampshire, if we have to, we can make $3 milk. We are getting over $4 for our milk now, but we can make $3 milk as long as we have enough logs in our woods so we can cut logs all winter. You cut logs for the privilege of making milk for nothing, and yet they tell us it is the income from the whole farm that counts.

The whole family is working in order to produce milk for which we simply do not get paid, and we also have that habit of referring to nonfarm income. If someone in the family gets a job off the farm, that is thrown in as nonfarm income, and that seems to me rather unfair.

Mrs. KNUTSON. It is unfair.

Mr. GUDE. It leaves an unfair picture of what our income actually is. However, that is the way it is computed, and that is what we have so much trouble with, trying to sell the consumer the idea that the farm is not making money when they see these figures.

My own personal thinking is that it has not become a public issue in the true sense. I find when I talk to groups of businessmen like those who belong to the Rotary Club and other groups like that, they are amazed when they hear the true figures, and their first reaction is, "I do not believe it," and they say that because they have been thoroughly convinced that the Government is taking care of the farmer and that there we are living on subsidies. However, when you tell them how this milk-subsidy thing turns out, and that we work so hard, they say, "Get more efficient."

I know people in my neighborhood who lunch in 20 minutes' time and breakfast in 10 minutes' time, and work from 4 o'clock in the morning until 8 o'clock at night so they can complete their job and not get too heavily in debt.

They do all that work and work their kids and wives in milking 40 and 50 cows, just with the father and mother and kids, and the general feeling is that that milk is bought up with the taxpayers' money, and is put in storage and then it is either given away or thrown away.

That is what they do all that work for. Yet, the American people seem to think that that money that they are spending on the Department of Agriculture goes direct to us in cash. Well, of course, we know that it does not.

It is a very ridiculous situation to have people killing themselves to produce milk for which there is absolutely no use. That is what is happening, and there is a good deal of influence carried on through your Government agencies, and I personally think that should be looked into sooner or later by the Congress.

After all, everyone admits that farming in this country is in bad shape, and it is a failure. We have a Department of Agriculture, and I do not see why their methods are not investigated by the Congress to see why it is a failure. We have some very peculiar things in the Department of Agriculture, and I do not mean Secretary Benson's Department of Agriculture. I mean the Department of Agriculture before Secretary Benson was ever there.

We have this Extension Service system, and everything which goes right down to the 4–H Clubs, which is all federally controlled, and goes from the Federal Government down to the State level out into the counties. From the time a farm child is 9 years old until he dies, he is never free of governmental control and educational training. That can be either good or bad, but, when conditions turn out as they are today, I think it should be looked into to see how good or bad it is, and what it is being used for.

It is a terrifically powerful control system that you have there in the educational system in agriculture, and it goes right through our entire fabric of farm society. There is no lapse.

I find one thing among farmers which is very hard to correct: Their biggest objection to this program is that it will increase the price of milk. That is the biggest objection. They have been told, "You will price yourself out of the market if you increase the price of milk."

The American people are spending something like $23 a hundred for beer, and I do not see why they could not spend $13 or $14 for milk.

I think it is a very strong criticism of our economy to say that, as Americans, we cannot pay for our food. We can pay for everything else. We can buy $3,000 Fords and so forth, but to say that we cannot pay 29 or 30 cents for milk does not follow.

Mrs. KNUTSON. It would be a matter of education, would it not, Mr. Gude?

Mr. GUDE. Yes; I think that is principally what it is.

Mr. JOHNSON. Mr. Williams, do you have any questions?

Mr. WILLIAMS. Mr. Gude, you are from New Hampshire, are you not?

Mr. GUDE. Yes, sir.

Mr. WILLIAMS. You are just across the border from my home State. Have you done any organizational work in New York?

Mr. GUDE. In New York State?

Mr. WILLIAMS. That is right.

Mr. GUDE. Yes; the Dairy Farmers of America, which is one of the affiliated groups, has 2,000 or 3,000 members in New York State, chiefly in the eastern part of the State.

Mr. WILLIAMS. I understood you to say that this program was about 6 weeks old.

Mr. GUDE. Yes, but the Dairy Farmers of America are one of the groups that are affiliated to set up this program. They will be a part of the membership in New York State. We have had several meetings with people like the county directors since the meeting in Chicago, and they are very enthusiastic about it, but we have not actually sold it out in the counties. That is where the work has to be done, in our opinion.

Mr. WILLIAMS. In what part of New York State are you organized, primarily?

Mr. WALDORF. We are mostly organized in the Hudson and Mohawk Valleys.

Mr. WILLIAMS. In what part of Mohawk Valley are you organized?

Mr. WALDORF. Well, we are organized in Herkimer County, and Schoharie County.

Mr. WILLIAMS. In what part of Herkimer County are your principally organized?

Mr. WALDORF. More in the southern part. We have not gotten up into the northern part of Herkimer County yet.

Mr. WILLIAMS. They do not produce much milk in the southern part of Herkimer County. All of the milk is produced in the northern part.

Mr. WALDORF. Yes, sir.

Mr. WILLIAMS. That is where we have the greatest trouble with milk producers in New York State—in these localities that you talk about. Support in the recent strikes in New York State came from the communities that you talk about. They have not been very cooperative as an organization as a whole in the dairy picture in that State.

Now, do not misunderstand me. I do not want to condemn your program here. Here is one of the faults which I find in matters of this kind: Many people come here to criticize Congress without submitting any program at all. So, I commend you people for having a program, sir. That is one of our greatest problems—in having people come here and criticize existing conditions and having no program whatsoever.

I think there are many great features in this program which could be given consideration. It is going to be a tremendous job in my way of thinking to get enough farmers educated and thoroughly educated to this program so that you would get support enough to get any consideration. It is a tremendous selling job, but I think now is a good time to propose this kind of a program to dairymen because they are ready to accept any sensible program that could possibly work to their advantage.

Mr. GURTNER. Could I say a few words on that?

Mr. WILLIAMS. Yes, sir.

Mr. GURTNER. We have sold this program to Wisconsin farmers for 2 years, or it will be 2 years on the 20th of August. We started in Barron County in the northwestern part of the State, and we have gone through the eastern part and southern parts and northern part and we have now 12,000 members in Wisconsin, that has signed up for the purpose of getting this program across.

As we went into these different areas, we have made complete sweeps through townships where we have called on all the farmers and usually we come up with as high as 80 percent to 98 percent membership in these townships. It is a tremendous job to educate the farmers and to get the idea across to them, and that they have to take the load on their own shoulders and finance their own way through, and take on the responsibility, but the farmer is willing and I think we can do it, sir.

Mr. WILLIAMS. I agree with you that the dairy farmers are willing and want to assume their own responsibilities in a dairy program of some kind. They are willing to even make sacrifices in order to get it started. I think it is a very worthy effort and I commend you for your effort in it.

Mr. GUDE. Thank you.

Mr. WILLIAMS. It is the only way we will get something that will be of financial benefit to our entire agricultural picture—have the farm people themselves work out their own problems. I think too many of them come here and look to the Government and many of the people here turn right around and look to you for suggestions as to how to iron out your own problems.

I wish more segments of agriculture would come in here with real honest suggestions as this program is. It might not be the answer to the dairy situation, but at least it is a suggested program.

Mr. GUDE. Thank you very much, sir.

Mr. TEWES. Mr. Chairman, I would like to comment that the general direction in which these gentlemen are pointing, as the other Congressmen have said, is probably desirable. The attempt to put the farmer on his own way apart from regulations seems to me to be the ultimate objective of this program. However, I think that they need to do, on the basis of the presentation here, a good deal more study and technical work in evolving all of the terms of the program.

We are all agreed that in any formulas for successful farming we want to have a good, high price for the farmer, but we have to have a price that the consumer will pay. We have to have a price which is going to keep other people from going into the industry. We have to have some kind of control over the surpluses which would then be produced.

As I analyze your program, you have a great enthusiasm. You have worked up a price that would be good for the farmers. I think at $5.29 you would not have much difficulty signing up farmers if you can guarantee that price.

But when you get to the difficulties of this program you begin to slough off the problem. For instance, you have worked out a formula which figures out the price for the farmer. Perhaps, if anything, it is too low. The farmer is entitled to more than a dollar an hour. When you get to the real problem, "How are we going to sell their milk at that kind of a price?" You fellows say, "We do not have any plans but we think the Americans can buy it at that price."

You say, "If they can buy other things at higher price, they ought to buy this." That is not a solution.

We have quite a few evidences that the American people have been rebelling against some prices on certain dairy products at their present price.

Further, how will you prevent other people from going into this business? I mean those who are now engaged in corn and wheat production. If you guarantee a fixed income to these people, how are you going to prevent the fellows from all over the country, particularly in the South, from scotching everything they are doing and going into this dairy program?

You say only "If that time comes we will do something about it."

Then, we come to the matter of the disposal of surpluses. How are you going to get rid of surpluses? That is the problem which is breaking down the present programs, and you say very blithely, "'Well, we will dispose of them in foreign markets."

Right at the present time the Department of Agriculture is doing, in my opinion, an outstanding job of moving those surpluses. However, the dent that is being made is relatively small. Yet you sort of gloss over this enormous problem by saying "We will get rid of surplus through foreign aid."

The point I am making is not critical. As I said in the beginning, I think the general objective of your proposal is good.

My advice to you would be—and I am not an experienced member of the House Agriculture Committee at all—to work this thing out in

complete detail. You have yet to solve some of the problems which are stifling the present-day program.

I would like to ask this one question, and then I will relinquish my time here:

Just in what respects does this differ from the Knox plan? Does it differ from the Knox plan only in the fact that you have fixed a higher price?

Mr. GUDE. No; that is one thing. We have to get, we believe, dairy farmers up where they belong, along with the rest of the American economy. The other thing is that it would be in the hands of the dairy farmers and there would be less Government in it, although it would be a Government program under Federal orders, but, by having a national organization where you have membership in each dairy county, there is more local control.

For example, if dairy farmers wanted quotas, they would ask for them by voting right at the county level because there would be an organization. That is one difficulty with dairy farming. Now, in Boston, our administrator, Mr. Appling, pointed that out when they put the Boston formula in. One of the most difficult things to do is to get hold of dairy farmers to explain any kind of formula or anything else to them.

My own cooperative, which is an excellent cooperative, and very successful, has a contract with the First National Stores, and they sell all their milk and pay us a premium above the market of 53 cents a hundred every month, but that cooperative cannot get the membership to come to a meeting. I believe we are down to 700 or 800 members, but at our annual meeting if we can get 40 or 50 farmers to that co-op meeting, we are doing pretty well. There is no way to get them together and explain anything. We feel, if there was a sort of association of dairy farmers, farmers would get into it and get interested at the county level, and there would not be any difficulty in talking and explaining the matter to them.

That is what we think is the big job—to organize farmers right around the country, and that is what we are trying to do, and that is where we differ from the Knox plan, principally.

Mr. TEWES. I am not sure I understand that difference.

Mr. GURTNER. You mentioned something about raising the price to the farmers, and you were wondering if the consumers could absorb that price increase.

Mr. TEWES. Not if he could, but if he would. In other words, will he buy a Coke instead of milk?

Mr. GURTNER. Today the pricing has been completely in the hands of the large companies, which control the dairy business. Due to that, only about one-third of the dollar, or about 33 percent of the consumer dollar, goes back to the farmer.

Out of 10,000 pounds of milk, which is 4,650 quarts at 23 cents a quart, the consumer pays $1,069.50. The farmer only gets about $350 in Wisconsin.

Back in the time when a farmer had a good income—back in 1947 and 1948, he received about 52 percent of the consumer dollar and, while labor's wages have gone up, the farmer's have gone down. As to this program, it would put pricing more into the hands of the farmer by encouraging cooperative marketing along with this program and we could get a fair ratio of the consumer dollar back to the farmer.

It may not be necessary that the price be raised to the consumer all the way through.

As far as surplus disposal is concerned, we say that we have to dispose of the surplus outside of domestic channels.

Mr. TEWES. Do you have any facts and figures to indicate that somebody else could go in and do a more efficient job of merchandising dairy products? Could he make a lower margin of profit and turn more back to the producer without increasing prices to the consumer?

Mr. GURTNER. We would have bargaining power which we do not have now. If we had cooperative marketing along with this program the way we have it set up, we could get a fair ratio of the consumer dollar back to the farmer. The surplus buying done by the Government today is done in carload lots and only in one grade, which does not enable the small dairy plant to sell to the Government direct, and also have outlets for grades that the Government rejects. Therefore, as is the case with cheese, for instance, the wholesaler collects the cent-and-three-quarters out of the support price that is actually meant for the farmer. The dairy farmer does not get the whole support price; therefore, they are at a disadvantage. This program here, this organization, would buy any amounts and any grades which would enable the dairy plant to operate more efficiently and see that more money goes back to the farmer.

On surplus disposal, if we cannot find foreign markets, we would sell in foreign markets at whatever price we could get. However, if it would disturb foreign markets—nobody wants this—we want to offer everything to the world if they can absorb it. If they cannot absorb it, then there should be no crime in disposing of it for animal feed, or any other way.

Mr. GUDE. As to the increase in price, I happen to know of one very small thing that happened in our State—it will be 2 years this fall—where the board raised the price of fluid milk 3 cents in 30 days to the consumer and there was no decrease in the consumption of milk. Two cents of that was seasonal increase to the farmer and 1 cent was an increase of a penny in spread to the dealer. There was no decrease in consumption. Butter, of course, is our problem. I do not think there is any difficulty in raising the price of fluid milk 4 cents a quart. I do not think there is any reason to believe that people would not buy milk at that price.

Mr. TEWES. If you were a businessman selling milk, you would certainly try to sell milk at the highest possible price you could get; would you not?

Mr. GUDE. Yes.

Mr. TEWES. So, these companies now distributing milk are getting as high a price as they can get from the consumer. This more or less contravenes your assumption that even though you raise the price, the people will buy. There is nothing in our marketing history to indicate that ever happened before.

Mr. GURTNER. He also tries to buy that milk at the lowest possible price.

Mr. TEWES. Sure, but if they are paying the farmers 3 cents a quart for milk when they are getting 22 cents, there is nothing to prevent their charging 29 cents if the traffic will bear it.

Mr. GUDE. Yes; they could, and they are in some areas. What is the price of milk in Poughkeepsie?

Mr. TEWES. I do not mean those particular figures. Whatever price is being received today by industry for a quart of milk is the highest price that can be charged. If they could get more, they would simply go out and get it. Their object is to make as much money as possible.

Mr. GUDE. At the price they are buying, then one of their competitors could sell for less. If they raise their price, they lose their customers because the other fellow is selling at the old low price. They are in competition, too. When the price of steel goes up, I know that they raise the price of tractors and, if I want a tractor, I pay. That argument does not follow through. Everything goes up when the basic ingredients price goes up. When the factors of cost increase, you are going to either have to raise your price or, if you do not raise your price, you have been making too much money and you absorb it. I find that in the last few years, while we have been going through the spiral of price increases, every time there is an increase in the price of labor in the steel industry, the price of steel goes up. It is announced publicly.

The farm-machine companies have to absorb that price increase and, at the same time, since usually these rounds of labor increase go through all of our basic industries, they have to pay an increase in their labor costs. That is put right straight onto the price and we have to pay it, but we cannot do anything about it. That is where we differ from other industries. There is one peculiar thing that Congress did to us that will give you an example of that.

When the farm labor group was given social security—which they certainly seem to merit and are as entitled to as any other worker—we had an increase of 1½ percent in our payroll. In those other Federal markets where fluid milk was being priced—even on your support program right about the same time—we got those increases in our costs and the price of milk was reduced by the same Government. That is the kind of thing we are up against. We cannot reflect our costs. We cannot reflect them as other industries who have influence on their prices. If you put unemployment insurance on our workmen today—we would have to pay it—we would have to squeeze that 3 percent of our payroll out, too. We cannot reflect it.

Mr. TEWES. That is all, Mr. Chairman.

Mr. JOHNSON. Does anybody else have any questions?

Mr. KRUEGER. Mr. Chairman, did I understand Mr. Gude correctly when he said that 90 percent of parity for dairy products would not help?

Mr. GUDE. Yes, it would help some. On the Knox plan, for example, or the Federation plan, they are figuring the same as we are in buying the products back. It would amount to an increase of about 43 cents a hundred on manufactured milk. That certainly would help.

Mr. KRUEGER. I am a wheat farmer and I come from North Dakota. We would be tickled pink if we could get 90 percent of parity for our wheat.

The Secretary of Agriculture announced a cut of 22 cents a bushel for wheat for 1958 crops and—I do not know—it may be less later on. We have to work hard and the same expensive tractors that you are buying present a problem for us and anything you are buying applies to us as well. We are asking and hoping that the Agriculture Department would maintain the $2 bushel wheat, which is not quite 90

percent. That is around 85 or 86 percent of parity. I do not know why your dairy products could not fare quite well under 90 percent of parity.

Mr. GUDE. The two principal factors involved there are one, labor, and the other, investment. We have a much larger investment per labor unit and we have much more labor. Ours is a 365-day-a-year job and we have to hire labor in competition with everyone else in this country. Our men have to be there all day, every day, 7 days a week. On your field crops, whether it be wheat, corn, or whatever, as opposed to your animal industries, you do not have that. It is more of a seasonal job. I know that the wheat farmers would be satisfied and they would be very highly satisfied with 100 percent of parity, but even Senator Aiken who comes from Vermont, which is a dairy State, points out that dairy farmers cannot pay their bills at 125 percent of parity. We are getting 125 percent of parity—that is, in the fall of the year—in New England. We cannot pay our bills on that and we are borrowing money and a lot of us are going out of business, but Senator Aiken points out that a potato farmer can make a fortune on 100 percent of parity.

Mr. KRUEGER. I want you to understand that our wheat farmers work quite hard, too, and they have a year-round job, if they want to do the job right.

Mr. JOHNSON. I think that Mr. Krueger has pointed out a problem that we have in Congress. If we are going to do something for the dairy farmer, we have to do something for the cotton farmer and the wheat farmer and the hog farmer and all other farm groups. These things do not go one farm group at a time. I believe he has brought that out.

Mr. GURTNER. Of course, as farmers, we are willing to solve our problems as commodity groups. Part of this program could be applied, or all of the program could be applied to beef, pork, poultry, and some of it could work for wheat farmers or whatnot. I think the wheat and beef farmers should get together as commodity groups and try to solve their own problems. We would not know what would be best for you, nor would you know what would be best for us. I think each commodity group should solve its own problems. We also should all work together.

Mr. KRUEGER. From what I have heard today, I think you have a tremendous job before you to sell your program.

Mr. GUDE. You are right.

Mr. KRUEGER. Education is the first thing in order with your program.

I understand that you did not get a very good reception from the Agriculture Department.

Mr. GUDE. Mr. Krueger, the only one we got—there was nothing against it—Mr. Forest just said we needed legislation. That is what we pointed out here. We need legislation to put this program into effect.

Mr. KRUEGER. I think before you ask for such legislation, you have a good deal of work to do in clearly presenting your problems to the Congress.

Mr. GUDE. You feel that one of our difficulties is that we are asking for a different method of pricing milk than is used for other commodities?

Mr. KRUEGER. That is right.

Mr. GUDE. We do believe that is true. We could be wrong but we do believe that.

Mr. JOHNSON. I want to thank you gentlemen for the statements that you have given the committee and I want to endorse what Mr. Williams said—at least you have stated what you want—but I believe that some of the members have pointed out to you some of the difficulties that you have to overcome. I am glad that we were able to have you with us and hear your plan.

If there are no other questions, we will adjourn.

Mr. GUDE. Mr. Chairman, may I be allowed to thank you very much for giving us your time and hearing our presentation.

Mr. JOHNSON. The meeting is adjourned.

(Thereupon, the hearing was adjourned at 11 : 40 a. m.)

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